

Tower Hall Theatre Foundation – 2016

The audit of financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive 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(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 12 (4) of the Tower Hall Theatre Foundation Act, No.01 of 1978. 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.

Detailed report in terms of 13 (7)(A) of the Finance Act was issued to the Director General on 22 January 2018.

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 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 judgments, 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.

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 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 Tower Hall Theatre 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

(a) Sri Lanka Public Sector Accounting Standard 2

Interest receipts from employees' loan and for the savings account totaling Rs.333,607 had been included in the investment interest receipts shown under investment activities of the cash flow statement.

(b) Sri Lanka Public Sector Accounting Standard 3

Due to adjusting of amounting to Rs.30,558,512 in the year under review which should have been adjusted retrospectively for rectifying the prior year errors, the effect occurred to comparative figures was not revealed from the financial statements.

(c) Sri Lanka Public Sector Accounting Standard 7

(i) When fixed assets are shown at revalued amount adequate information should have been disclosed thereon but adequate information had not been disclosed from the financial statements in the year under review relating to fixed assets of amounting to Rs.681,030,453 of revaluation surplus shown in the statement of changes in equity.

(ii) As the useful life time of the non-current assets had not been reviewed annually, 05 vehicles costing of Rs.8,992,531 were still being used despite being fully depreciated. Accordingly Action had not been taken to revise the error occurred in estimating depreciation rates in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Even though amounting to Rs.102,000,000 and Rs.4,380,000 respectively had been received as grants from the Ministry of Education and the Treasury in the year under review, capital grants receipt amounting to Rs.17,100,000 had been shown understated the cash flow generated from financial activities due to that grant amounting to Rs.89,280,000 had been shown in the cash flow statement.
- (b) Even though the building owned by the Foundation had been valued at Rs.200 million in the year 2007, action had not been taken to account for the value even up to 31 December 2016.
- (c) Non-financial activity of Employees' loan interest amounting to Rs.333,607 had been included in the interest receipt from investment amounting to Rs.14,408,658 shown under investment activities of cash flow statement.
- (d) Due to investment interest receivable amounting to Rs.135,570 as at 31 December 2016 had been shown less, receivable balances and investment interest income in the year had been shown understated in the financial statements.

2.2.3 Unexplained differences

Even though investment interest received in cash during the year was amounting to Rs.13,418,665 as per the fixed deposit register maintained by the foundation, that amount had been shown in the cash flow statement as Rs.14,046,602 a difference of Rs.627,937 was observed.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Foundation had failed to recover totaling of Rs.220,479 balances included in other receivable balance in the year under review and coming over several years even by 30 November 2017.
- (b) Action had not been taken to settle the credit balance amounting to Rs.2,015,119 as at 31 December 2016 even by 30 November 2017 and value of this loan balances which is over 5 years was amounting to Rs.1,639,113.

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

The following instances of non-compliances with Laws, Rules, and Regulations, were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
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(a) Financial regulation 571(2) of Financial regulation of Sri Lanka Democratic Socialist Republic	Actions had not been taken as per the financial regulations regarding the deposits relating to Rs.84,000 deposits of Rukmani Devi Memorial Centre and Rs.252,000 deposits of Tower Hall Theatre which included in the refundable deposit balance comprising of deposits charged when allocating theatres and coming from 2 years ago.
(b) Section 3.4 of Procurement Guideline	A sum of Rs. 875,666 had been expensed for the printing of envelopes, invitation cards, vehicle passes, identity card and book covers, digital boards etc. for the special project of “Maname and Rekawa” and “Maname Abimangala Dekma” implemented by the foundation in the year under review. Those services had been obtained from a private institute with the approval of the Director General and calling bids which should have been done as per the procurement guideline had not been done.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, a deficit of Rs.17,552,384 had been occurred from the operating activities of the foundation for the year ended 31 December 2016 as compared with the corresponding deficit of Rs.12,050,421 for the preceding year thus, indicating an increase in the deficit of the year under review by Rs.5,501,963 as compared with the preceding year. The decrease in the interest and rent income by Rs.3,392,644 and increase in administration establishment expenditure by Rs.1,783,533 and promotional and welfare expenses Rs.4,819,563 had caused the increase in the deficit.

An analysis of the financial results of the year under review and 04 preceding years, a financial deficit had been continuously resulted from year 2012 to 2016. However, when readjusting the employee remuneration and depreciation on non-current assets to the financial result, a contribution amounting to Rs.29,169,075, Rs.28,695,875, Rs.26,376,128 Rs.31,686,747 and Rs.32,104,972 from year 2012 to 2016.

4. Operating Review

4.1 Performance

In terms of the Act No.01 of 1978 of Tower Hall Theatre, the main objectives of the Foundation were to encourage and promote national theatrical activities, to develop and improve the knowledge, understanding, and practice of the Theatre, to provide financial assistance to Theatre artistes and craftsmen, and to assist in the training of artistes, to engage in the production, experimentation and performance of opera, dance, drama and music, to restore, preserve, maintain and utilize the Tower Hall Theatre as a national monument in order to secure the objectives set out above and for such other purposes as the Board may consider fit.

- (a) According to the Action Plan in the year under review, 15 Programmes/Projects with estimated cost amounting to Rs.5,800,000 had not been executed out of 34 Programmes/Projects planned to be executed. Further in considering the physical progress of 05 Programmes/Projects executed, it was at a lower level of 25 per cent to 50 per cent.
- (b) Two year, full time Drama and Theatre Higher Diploma Course is being held by Tower Drama and Theatre School conducted by Foundation and number of students of the course and the fees of the course had been increased annually. Accordingly number of students from 23 to 40 and course fee from Rs.50,000 to Rs.85,000 had been increased in the year 2016 with compared to year 2012. Nevertheless lecture hall facilities, library facilities, facilities of practical halls, facilities of sanitary services, computer facilities, dressing room facilities, resting room facilities and hostel facilities and canteen facilities etc had not been adequately complete. Accordingly attention of the management had not been paid towards the necessity of developing Tower Drama and Theatre School promptly as possible to reach towards the objectives of the fund.

4.2 Management Activities

The following observations are made.

- (a) Even though a Board of Management, responsible for the Board of Trust of the Tower Hall Theatre Foundation, had been appointed for the administration of President's Welfare Fund for providing assistance to the Performing Artists, that board had not met from 29 August 2011 to 31 December in the year under review and accordingly any decision had not been taken relating to the activities of the Welfare Fund.
- (b) Foundation had incurred an additional cost amounting to Rs.48,835 due to engaging the permanent manager of Rukmani Devi Theatre for the duties of the special project of "Maname and Rekawa" which are not the duties of that post and engaging another officer for acting in the post of Theatre Manager.

- (c) Amounting to Rs.2,035,471 had been incurred as telephone bills, salary of the coordinating officer, stationary, printing expenses, refreshment expenses, renting of sound equipment and other expenses by the foundation by 30 October 2016. These expenses had not been included in the budget and the action plan of the year 2016 and had been incurred solely based on the approval of the Director General.
- (d) A vehicle given to the Foundation by the Ministry of Education which belongs to North and East Irrigation and Agricultural Project, had been engaged on the duty of the foundation since November 2015 and actions had not been taken to transfer it to the Foundation properly even by 31 December 2017.
- (e) One floor amounting to 32000 Sq.ft of the two storey building in which head office of the foundation is holding, had been given for the use of Construction Industry Development Authority since 16 May 2016. Rent had not been charged for the use of the building from Construction Industry Development Authority until 30 November 2017.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) Amounting to Rs.163,736 had been incurred for advertising on 21 January 2015 in 05 newspapers for calling applications to recruit an officer to the post of Director General of the Foundation. However outside that and in contrary to sub section 4.2 of the Scheme of Recruitment, the Chairman of the Board of Control had recruited a person over age 60 years on permanent basis and amounting to Rs.1,361,320 of salary and allowances had been paid to that officer for the period from 02 July 2015 to 31 October 2016.
- (b) In addition to general new year festival hold by the Foundation, Foundation had expensed amounting to Rs.600,000 such as Rs.306,000 for Refreshment expenses, Rs.246,000 for advertising boards and Rs.48,000 for purchasing of materials required to a street drama for conducting on 26 April 2016 a new year festival named New Year Festival of Artists and the Staff. Those funds had been covered from the fund amounting to Rs.600,000, obtained from Central Cultural foundation on 29 April 2016 for the welfare of Artists and for many other programmes. Nevertheless according to the attendance register, it was confirmed that staff had been reported to the duty on 26 April 2016 in own working places such as head office, Tower Hall Theatre, Elphinstone Theatre and Rukmani Devi Theatre and evidence were not presented to the audit regarding that such a new year festival had been then conducted.

4.4 Contract Process

Even though modifications to Elphinston Theatre which started in year 2012 had not been completed even by 31 December 2017, 700 seats had been purchased for the use of the theatre from a private company according to the procurement committee decision dated 18 June 2014. Amounting to Rs.9,019,794 from totalled value of Rs.12,768,000 had been paid by 28 October 2015 without confirming whether it is with proper standard after installation of seats and those seats had been amassed in the theatre without using even by 31 December 2017.

4.5 Staff Administration

The following observations are made.

- (a) Even though the cadre approved by the Department of Management Services had been 91 as at 31 December 2016, the actual cadre as at that date had been 64 and hence number of vacancies had been 27. Among those vacancies, Posts of Director General, Director Administration and Development, Internal Auditor, Course Coordinating officer, and Senior Sound Controller, Manager of Rukmani Devi Theatre and Manager of Elphinstone Theatre had been remained vacant and hence, the performance of those areas had remained at a weak level.
- (b) Without recruiting a permanent officer for the post of Director Administration and Development, an approved post of the fund: an officer older than 60 years had been recruited on 02 November 2015 for a period of one year and that contract period had been extended for a year again. However amounting to Rs.449,242 had been paid to that officer as the salary during the period of 02 November 2015 to 30 October 2016 by the Fund.
- (c) Even though approval of the Department of Management Services had been received on 20 July 2011 to fill the vacancy of Internal Auditor of the Foundation that position had been remained vacant even by 30 November 2017.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements for the year ended 31 December 2016 should be presented to the Auditor General within 60 days of the closure of the accounting year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, those financial statements had been presented on 10 July 2017 after a delay of 4 months and 10 days.

5.2 Action Plan

Even though action plan should be prepared indicating annual target to achieve each objectives and officers who are responsible for that targets in accordance with Sub Section 5.1.2 of the Public Enterprises Circular, No. PED/12 of 02 June 2003, it was observed that action plan prepared by the Foundation was not adhered to that.

5.3 Audit Committees

Even though meetings of the Audit and Management Committee should be held quarterly in accordance with Section 7.4.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, any meetings of the Audit and Management Committee had not been conducted from January 2016 to 30 November 2017.

5.4 Budgetary Control

Provisions amounting to Rs.8,577,000 had been remained in the year under review due to not preparing of budget estimates properly in terms of National Budget Circular No.3/2015 dated 29 July 2015.

5.5 Internal Audit

Even though an internal audit unit should have been established to maintain continuous tests regarding the formality and the adequacy of the internal control and internal check of the Foundation in terms of direction 133 and 134 of the financial regulation,, action had not been taken to conduct an internal audit by establishing an internal audit unit in 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 Director General of the Foundation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a.) Accounting	(i) Capital grants, investment interest receipts had not been accurately accounted.
	(ii) Cash flow statement had not been accurately prepared.
	(iii) Financial statements had not been prepared according to certain Public Sector Accounting Standards.
	(iv) Non-current assets had not been accounted and depreciated.

(b.) Staff Administration

- (i) Permanent officers had not been recruited to fill the vacancies.
- (ii) Officers had been employed for certain posts on acting basis over a long period.

(c) Contract Administration

- (i) Noncompliance with Procurement Guideline.
- (ii) Failure to complete building constructions within the relevant period.
- (iii) Having weaknesses in preparing estimates.