

## **Galle Heritage Foundation - 2018**

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### **1.1 Adverse Opinion**

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The audit of the financial statements of the Galle Heritage Foundation for the year ended 31 December 2018 comprising the balance sheet as at 31 December 2018 and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance of the matters described in Paragraph 1.5 of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Galle Heritage Foundation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Adverse Opinion**

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Based on the matters described in Paragraph 1.5 of this report, I express an adverse opinion.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Galle Heritage Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Galle Heritage Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Galle Heritage Foundation's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Galle Heritage Foundation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Galle Heritage Foundation.

## 1.4 Scope of Audit

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Galle Heritage Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Galle Heritage Foundation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Galle Heritage Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Galle Heritage Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation,
- Whether the Foundation has performed according to its powers, functions and duties; and
- Whether the resources of the Foundation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

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### 1.5.1 Internal Control over the preparation of financial statements

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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Non-compliance with Sri Lanka Public Sector Accounting Standards

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Non-compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
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(a) In terms of accounting format appeared in Sri Lanka Public Sector Accounting Standard 01, the statement of changes in equity had not been submitted along with the financial statements and only a total sum of Rs.66,497,881 had been stated in the balance sheet.	It was noted down to correctly state the preparation of statement of changes in equity in the future financial statements.	Action should be taken in accordance with the Sri Lanka Public Sector Accounting Standards 01.
(b) In terms of the requirements specified in Sri Lanka Public Sector Accounting Standard 01, the following deviations from the cash flow statement were observed.		

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| (i)  | Although the other receivables as at 31 December of the year under review had decreased by Rs.1,390,770 compared to the preceding year, it had been stated as Rs.227,236 in the cash flow statement.    | It was noted down to reconcile figures of the cash flow statement with that of the preceding years in the future.                                                                                                       | Action should be taken in accordance with the Sri Lanka Public Sector Accounting Standards 02. |
| (ii) | Although receipt of fixed deposit interest of Rs.1,435,609 for the year under review, should be separately shown in the cash flow statement under the investment activities, it had not been so stated. | The receipt of interest of the year under review had been re-invested in the deposits and it had not posed physical influence on the cash flow statement and as such, it had not been shown in the cash flow statement. | -Do-                                                                                           |

### 1.5.3 Accounting Policy

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Audit Observation	Comments of the Management	Recommendation
The depreciation policy applicable to the years of acquisition and removal of assets as well as accounting policy applicable to accounting for investments had not been disclosed in the financial statements.	The Galle Heritage Foundation depreciates its Property, Plant and Equipment from the date of acquisition of the assets based on the annual depreciation rates of each classification. It was noted down to state the policy in the financial statements of the ensuing year.	An accounting policy should be introduced in conformity with the accounting policies applicable to the depreciation of fixed assets.

### 1.5.4 Accounting Deficiencies

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Audit Observation	Comments of the Management	Recommendation
(a) Interest of Rs.1,530,000 relating to the year under review in respect of fixed deposits valued at Rs.12,000,000 had not been stated in the financial statements.	The fixed deposit shown under this was to be matured in three years. It was noted down to correct the relevant adjustment of interest by crediting to the accumulated fund in the financial statements of the year 2019.	Interest of the year should be adjusted to the income of the year on accrual basis.

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| (b) | Since the provisions for gratuity for the year under review amounted to Rs.651,315, the deficit of the year had been understated in the financial statements.                                                                                                                                                                                                                                                                                  | It was noted down to take necessary steps to debit the above less allocation to the accumulated fund in the year 2019 and thereby, correct that error.                                                             | The correct value of the allocations should be stated in the financial statements.                                                                              |
| (c) | Without being stated the building constructions expenditure of Rs.1,870,747 as expenditure of the year under review, it had been stated as contingent assets in the financial statements.                                                                                                                                                                                                                                                      | Stating the expenditure incurred on buildings under the contingent assets is admitted as an error and it should be corrected as a deferred assets. Accordingly, this will be submitted correctly in the year 2019. | Action should be taken to adjust the expenditure of the year to the income.                                                                                     |
| (d) | Without being taken action to reconcile the un-reconciliations totaling Rs.2,063,583 pointed out in the preceding year's Audit Report, it had been written off to the accumulated fund during the year under review.                                                                                                                                                                                                                           | This has been effected as correction of errors and relevant journal entries have been shown in the set of accounts.                                                                                                | Correction of errors should be properly identified and adjustments should be made on the approval of the Board of Directors.                                    |
| (e) | A difference of Rs.113,594 was observed between the receivable balance of employees loan account shown in the balance sheet presented to the Audit and the schedule presented together with the financial statements.                                                                                                                                                                                                                          | Not commented.                                                                                                                                                                                                     | The balances shown in the financial statements should be compared with the relevant schedules and correct balance should be stated in the financial statements. |
| (f) | Although the balance of the bank current account had been zero in value as at 31 December of the year under review according to the cash book, the balance of the bank current account had been stated as Rs.1,056,213 as per the balance sheet. Nevertheless, any details on the adjustments made extraneous to the cash book had not been made available to Audit and the Management failed to submit precise clarifications in this regard. | Corrections of errors have been shown under this and relevant journal entries have been shown in the set of accounts.                                                                                              | Action should be taken to furnish the details on the relevant adjustments to the Audit.                                                                         |

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| (f) | Correction of errors relating to assets of Rs.4,712,294 and liabilities of Rs.3,236,142 and incorrect adjustments made to the profit of Rs.4,381,075 stated in the previous year's Auditor General's Report had not been corrected even in the year under review. Accordingly, it could not be satisfied in audit that the opening balances stated in the financial statements of the year under review had been accurately stated in the financial statements. | Not commented.                                                                                                                                                                                                       | Shortcomings pointed out by the audit reports should be corrected and only the accurate comparative balances should be stated in the financial statements.                    |
| (g) | Out of the receivables as at the beginning of the year under review, balances of Rs.1,180,703 had been written off from the Accumulated Fund without any approval and as such, the Fund had been understated by that amount.                                                                                                                                                                                                                                    | Approval of the Board of Directors has been obtained for the annual financial statement set. Further, this has been done as a correction of errors. Relevant journal entries have been shown in the set of accounts. | Approval should be obtained to write off from the Accumulated Fund. The correction of errors should be properly identified and relevant details should be furnished to audit. |

### 1.5.5 Un-reconciled Control Account or Reports

Item	Amount	Evidence not Furnished	Comments of the Management	Recommendation
Fixed Assets	Rs. 39,553,151	(i) Updated Registers of Fixed Assets. (ii) Board of Survey Reports	Necessary steps will be taken to submit the requested information to you in the future.	Action should be taken to submit the updated correct register of assets and the Board of Survey Reports for the balances of non-current assets stated in the financial statements.

Stock	792,865	(i) Stock Book (ii) Detailed Stock Registers (iii) Stock Age Analysis	-Do-	Action should be taken to submit the Stock Book, Detailed Stock Registers, Stock Age Analysis expeditiously to the Audit.
Other receivable accounts	1,592,427	(i) Documents relating to accounts receivable. (ii) Balance confirmation certificates (iii) Age analysis	-Do-	Action should be taken to submit the details stated for the confirmation of receivable account balances.

#### 1.5.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
a) Financial Regulations 137	Even though payment should be made only for the approved vouchers, payments for 46 vouchers valued at Rs.2,359,565 had been made without obtaining approval.	A request has been made to furnish a detailed documents on these 46 vouchers to the Galle Heritage Foundation and after the receipt of that details, explanations are expected to be made in this connection.	Action should be taken to carry out activities of the Foundation in accordance with the Financial Regulations and officers should be educated thereon. Necessary steps should be taken in this connection.
b) Financial Regulation 168 (1)	Any officer must, on receipt of money on behalf of Government, issue forthwith to the payer a machine numbered official receipt, on the prescribed form. Nevertheless, no receipts had been issued for 35 deposits worth Rs.869,085.	A request has been made to furnish a detailed documents on these 35 deposits to the Galle Heritage Foundation and after the receipt of that details, explanations are expected to be made in this connection.	-Do-

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| c) | Public Enterprises Circular No.PED27 dated 27 January 2005.                      | Although financial statements should be furnished to the Auditor General within 60 days from the close of the year of account, financial statements of the year under review had been furnished on 18 October 2019. | Action will be taken to furnish the same on due date in the year 2019. | Action should be taken to furnish the financial statements on due date in terms of provisions in the Circulars. |
| d) | Paragraph 7.4.1 of the Public Enterprises Circular No.PED 12 dated 02 June 2003. | Although Audit and Management Committees should be conducted quarterly, Audit and Management Committees had not been conducted.                                                                                     | We participate in the meetings conducted at the Ministry.              | In terms of Circulars, Audit and Management Committees should be conducted by the Foundation.                   |
| e) | Section 03 of the Galle Heritage Fund Act No.07 of 1994.                         | A Performance Report on the affairs of the Foundation had not been prepared. Annual Reports had not been tabled in Parliament after the year 2016.                                                                  | This will be presented in the future.                                  | The Performance Report should be prepared on due date.                                                          |

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the operations of the Foundation for the year ended 31 December 2018 had resulted in a deficit of Rs.223,182 as against the surplus of Rs.1,359,778 for the preceding year, thus observing a deterioration of Rs.1,582,960 or 116 per cent in the financial results of the year under review compared to the preceding year.

The above deterioration was mainly due to the decrease of the grants received from the Ministry by Rs.1,998,197 or 19 per cent and decrease of rental income included in the other income by Rs.706,715 or 39 per cent in the year under review as compared with the preceding year.

### **2.2 Tendency Analysis of the Main Income and Expenditure Items**

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The following observations are made in this connection.

- (a) In analysing financial results of the year under review and four preceding year, the financial result from the year 2014 up to the preceding year had been a surplus and it had turned out to be a deficit in the year under review. When considering the employees remuneration and the depreciations for non-current assets, contribution of the Foundation



had been continuously increased from the year 2014 up to the year 2016 and it had decreased by 26 per cent and 20 per cent in the year 2017 and the year under review respectively as compared with the preceding year.

- (b) The ratio between the total income and total surplus had been 16 per cent in the year 2015 and it had increased up to 22 per cent in the year 2016. That ratio had decreased up to 9 per cent in the year 2017 and it was observed that the above value had further decreased up to 2 per cent during the year under review.

### 3. Operating Review

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#### 3.1 Management Inefficiencies

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) In terms of Section 5 (1) of the Act, the administration, management and control of the Foundation have been assigned to the Board of Directors. Nevertheless, the Board of Directors had met only four instances during the year under review and all the members had not participate in the meetings though it consists of 26 members. Similarly, out of the members of the Board of Management, the Director of the Postgraduate Institute of Archeology or his nominee had not attended any meetings during the year under review.	The Chairman decides the dates of the Management meetings. Four meetings were conducted in the year 2018. Due to political uncertainty experienced in the country on 06.10.2018, the Management Committee could not be convened. The members have been properly informed on the Board of Management Committee meetings.	Management Committees should be duly conducted. Maximum possible participation of the members should be ensured.
(b) Having identified the necessity to amend the Galle Heritage Foundation Act, No. 7 of 1994 in view of the objectives such as, providing more powers for the Foundation, and implementation of a methodology to generate an income for the Foundation, a Cabinet Memorandum had been prepared in that connection in the year 2015. Nevertheless, the said Act had not been amended even as at 31 December of the year under review.	As the Galle Heritage Foundation functions under the Ministry of Housing, Construction and Southern Development in the year 2019, action is being taken to obtain instructions from the Ministry relating to such amendments.	Amendment of the Act should be completed as soon as possible.

### 3.2 Operating Inefficiencies

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Audit Observation	Comment of the Management	Recommendation
<p>a) The Management had not taken measures with respect to the duties, responsibilities, and the structural changes to be made for the Foundation that the Foundation had been entrusted with in regard to the preparation of conservation plans and project reports in connection with the implementation of the management plan presented by the Ministry of Cultural Affairs in the first quarter of the year 2015 to the UNESCO with respect to the conservation of Galle Fort being a world heritage site.</p>	<p>Preparation of conservation reports is being done with respect to 06 buildings selected in this year. This will be implemented in the ensuing years.</p>	<p>The Management should take measures to discharge the functions assigned.</p>
<p>b) UNESCO had declared the Galle Fort as a world heritage. However, the management of the Galle Heritage Foundation had been unable to comply with the guidelines of the UNESCO and implement the management plan presented to UNESCO for the conservation of Galle Fort.</p>	<p>The Galle Heritage Foundation should employ a staff qualified enough as recommended by the UNESCO to execute the functions in accordance with the management plan. The proposed staff has again been presented under the current Ministry.</p>	<p>Action should be taken to implement the management plan.</p>
<p>c) The Board of Management had been unable to take any measure whatsoever against 22 unauthorized constructions identified so far in the Galle Fort by the Urban Development Authority. Furthermore, there exists no legal provision for the Galle Heritage Foundation to remove the unauthorized constructions whilst the possibility to promptly get the other state institutions to do so also remained low. This situation was an impediment in the achievement of objectives set out in the establishment of the Galle Heritage Foundation.</p>	<p>Legal action has already been taken 36 times for the removal of unauthorized constructions.</p>	<p>All the measures should be taken for the removal of unauthorized constructions.</p>

### 3.3 Procurement Management

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Audit Observation	Comment of the Management	Recommendation
<p>a) Irrespective of the source of funding as per Guideline 1.3.2 of the Procurement Guidelines – 2006, the procurement procedure had not been followed with respect to 05 purchases valued at Rs. 589,658.</p>	<p>V18/01/01 The said purchase had been made from Damro under approval of the Chairman.</p> <p>V18/03/17 The purchase had been made at a price lower than that of the one made in December 2017.</p> <p>V18/05/06 The said services had been obtained under an accurate procurement procedure.</p> <p>V18/09/26 Ileperuma Motors had been selected based on the register of suppliers of the District Secretariat, Galle.</p>	<p>Instructions of the Procurement Guidelines should be followed.</p>
<p>b) In terms of Guideline 2.11.3 (a) of the Procurement Guidelines, the proceedings of the meetings of the committee should be recorded in the specified format given in the Procurement Manual and authenticated by the members present. Nevertheless, procurement decisions had been taken without being authenticated by the members.</p>	<p>Accepted. The procurement decisions mentioned had been taken with the consent of the members. However, a delay had occurred in obtaining signatures by recording the relevant decisions in the register used to record the procurement decisions. Action will be taken in due course to avoid such mistakes.</p>	<p>Instructions of the Procurement Guidelines should be followed.</p>
<p>c) A sum of Rs. 14,800,000 had been allocated on the activities such as, construction of a lavatory complex to be used by the visitors to the Galle Fort, conservation of the</p>	<p>Not commented.</p>	<p>The measures planned to receive the attraction of the tourists and provide them with the facilities, should be taken promptly.</p>

observation room in the Moon Bastion, and improvement of Information Technology Center. However, construction of the lavatory complex and conservation of the observation room in the Moon Bastion had not been commenced. Wooden furniture had been purchased at a value of Rs. 1,030,129 for the Information Technology Center, but the improvement activities thereof had not been completed even up to 31 December 2018.

### 3.4 Human Resource Management

----- <b>Audit Observation</b> -----	----- <b>Comment of the Management</b> -----	----- <b>Recommendation</b> -----
a) Vacancies existed in 07 posts including the post of Administrative Officer. An officer had been recruited to the post of Administrative Officer on contract basis with effect from 02 January 2006, and the contract period had been extended annually even up to the end of the year under review.	Although the Administrative Officer was scheduled to be retired, she had to be retained in the post due to reasons such as, changes in the Ministries due to political instability in the country, and the necessity for the continuation of the institution while ensuring the safety thereof whilst the posts of Director and Chairman of the Galle Heritage Foundation had remained vacant.	Action should be taken to properly fill the vacancies.
b) Officers had not been recruited to 06 posts of Development Officer included in the approved cadre. Instead, 03 Cultural Officers of the Ministry of Cultural Affairs had been attached in the capacity of Project Assistant Officers with effect from the year 2006.	At present, this institution belongs to the Ministry of Cultural Affairs. As such, those 03 officers had been attached thereto. A management plan had been approved by the UNESCO for the Galle Fort. Action is being taken to revise the staff.	Action should be taken to formalize the approved cadre.