

**Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Foundation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, 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 the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position 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.

**1.1 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

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 qualified opinion.

**1.2 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 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 Foundation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Foundation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the 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.

### **1.3 Audit Scope (Auditor's Responsibility for the Audit of Financial Statements)**

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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 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 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 to cease to continue as a going concern.
- Evaluate the 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 Foundation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Foundation has complied with applicable written law, or other general or special directions issued by the governing body of the Foundation ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

#### **1.4 Financial Statements**

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##### **1.4.1 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.

##### **1.4.2 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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###### **Non-compliance with Reference to the Relevant Standard**

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Although the excess on the revaluation of property should be specified separately in the statement of changes in equity as per the Sri Lanka Public Sector Accounting Standards No. 01, the surplus generated by the revaluation of vehicles and lands in the year under review amounted to Rs. 13,316,231 had been shown as a change in accounting policies.

###### **Comments of the Management**

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It was stated that the notes were made to record in the accounts separately.

###### **Recommendation**

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Actions should be taken in compliance with the Accounting Standard whilst preparation of financial statements.

## 1.5 Accounting Deficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Since failure to make the right adjustments to the errors occurred at the revaluation of the motor vehicle during the preceding year and not computing the Revaluation Reserve regarding the revaluation made in the year under review accurately, it had been shown understating the Fixed Assets Account by Rs. 20,157,334, overstating of Cumulative Fund Account by Rs. 22,100,000 and overstating of the motor vehicle depreciation for the year under review by Rs. 1,942,666 .	It has been stated that the deficiency occurred whilst computing the revaluation was noted to take in to accounts accurately in the year 2019.	Actions should be taken to rectify the accounting deficiencies shown at the audit.
(b) Even though the value of the land No. 27 which was legally owned as at 31 December 2018 had been taken in to accounts as an asset, since the value of the building located therein valued at Rs. 4,072,693 had been withdrawn from the asset account for revaluation in the year 2017 had not been revalued and taken back to accounts even by the end of the year under review.	It is noted that the value of the old headquarters building owned to the Foundation but omitted from the value of the buildings will be taken in to books.	The attention should be drawn in respect of the assets that have so far been taken in to accounts at the valuation of the assets.
(c) The building of the Sri Lanka Television Training Institute (SLTTI) which had been removed from the accounts but not revalued in the year 2017 amounted to Rs. 12,019,502 was revalued in the year under review and, the revaluation amount of Rs. 53,000,000 had been taken in to accounts as a deferred income.	It has been noted that this accounting error occurred due to a mistake will be rectified in the year 2019 .	The revaluation surplus should be properly taken in to accounts.

## 1.6 Accounts Receivable and Payable

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### Receivables

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#### Audit Observation

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The balance relating to the Miscellaneous Education and Business Development Unit amounted to Rs. 6,135,316 or 60 per cent out of total accounts receivable as at 31 December 2018. Despite of identifying the debtors relevant to the balance of Rs. 3,977,990 in between 01 year and 5 years out of that, actions had not been taken to set up an appropriate mechanism to recover the debt balances.

#### Comments of the Management

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A sum of Rs. 1,488,175 has already been recovered and it is stated that the actions are being taken to obtain instructions from the Attorney General to recover the remaining amount of Rs. 4,647,141.

#### Recommendation

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Actions should be taken to recover the outstanding debts immediately.

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

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

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Financial Regulation of the Democratic Socialist Republic of Sri Lanka  
Financial Regulations 761

#### Non-compliance

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The Inventory Register had not been updated including the kitchen equipment amounting to Rs.1,455,250 purchased to the hostel for the year under review.

#### Comments of the Management

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Necessary arrangements are being made.

#### Recommendation

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Inventory Registers should be maintained in an updated manner as per Financial Regulations.

## 2. Financial Review

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### 2.1 Financial results

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The operating result of the year under review amounted to a deficit of Rs. 34,683,516 and the profit for the preceding year amounted to Rs. 1,906,195 as against to that. Accordingly, a deterioration of Rs. 36,589,711 of the financial result was observed. The increase in training and education, contractual services, maintenance, depreciation and other operating expenses by Rs. 88,511,786 had mainly attributed to this deterioration .

## 3. Operating Review

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### 3.1 Management Inefficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) No arrangements had been made to recover a sum of Rs. 289,196 in due from an officer who had left from the service in the year 2005 and a sum of Rs. 189,588 recoverable regarding the stolen goods in the year 2015.	Actions are being taken by the Attorney General's Department on this.	Actions should be taken to recover the money in due from the officers without delay.
(b) Actions had not been taken to recover a sum of Rs. 1,375,812, identified as withholding tax receivable from the Department of Inland Revenue relating to the period of the year 2006-2009 by the end of the year under review.	It has been stated that the actions were taken to withdraw this money on several occasions and this Section of that Department has already closed.	Actions should be taken to recover the balance receivable by furnishing written documents proving that those should be recovered from the Department of Inland Revenue.

### 3.2 Operational Inefficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) Since the value of fuel purchase to operate the Generator is being written off as a cost during the year, the adjustments had not been made to the remaining stocks of fuel. However, there was also a balance of 1331 litres remained at the time of buying 6,600 litres of Diesel for a sum of Rs. 628,180 in the year 2017, a stock of 6,470 litres of fuel had remained as at 13 March 2019 .</p>	<p>It has been stated that the remaining amount of fuel in the Generator will be taken into consideration whilst counting the year end stock in future as per observation.</p>	<p>The necessary adjustments should be made identifying the year end stocks of fuel accurately.</p>
<p>(b) The number of total lecture attendance of the 15 Lecturers recruited on a permanent and contract basis for 122 Advanced National Diploma, National Diploma, Certificate Courses and various workshops conducted during the year under review were 2613.5 hours and the number of lecture attending hours of external resource persons in these courses were 6680.75 hours. Annual salaries and other allowances of the lecturers recruited on permanent and contract basis amounted to Rs. 15,350,889 and the total allowance paid to external resource persons for the year under review was Rs. 13,076,578 . Whilst the value of an lecture hour of an external resource person is Rs 1,957 , the value of an lecture hour of a Permanent Lecturer was Rs. 5,874.</p>	<p>It had been stated that only the lecture hours of the Lecturers were considered and the performance of the Education Sector was not reviewed.</p>	<p>The performance of the lecturers should be reviewed.</p>

### 3.3 Procurement Management

#### Audit Observation

Without obtaining an advance payment guarantee in accordance with Section 5.4.4(1) of the Procurement Guidelines, an advance payment of Rs. 1,500,000 or nearly 47 per cent of the contract value had been made for the commencement of the Construction Contract valued at Rs. 3,150,846 awarded in the year under review .

#### Comments of the Management

It was stated that it has been paid with the approval of the Chairman of the Foundation on the certification of the Consultant of the Project .

#### Recommendation

Actions should be taken in complying with the Guidelines of the Procurement Guidelines.

### 3.4 Human Resource Management

#### Audit Observation

Despite the educational qualifications for the teaching of the subject of Information Technology or Human Resources Management were not submitted thereon, the position of Permanent Lecturer was appointed and had been attached to Facilitate Online Information Technology Teaching Activities (E-Gate) Project.

#### Comments of the Management

The Consultant has been appreciated internationally for Information Technology and due to Consultant's knowledge in Information Technology, there has created the Distance Learning Software in Sri Lanka first ever, through Distance Education and it was also stated that the services will be provided to facilitate teaching through distance education.

#### Recommendation

Even if it is to facilitate distance education activities, the qualified consultants should be appointed for that.

## 4. Accountability and Good Governance

### 4.1 Audit and Management Committee

#### Audit Observation

The recommendations of the Audit and Management Committee had not been submitted to the Meetings on Board of Directors as per Section 15 of the Public Enterprises Circular No. 55 of 14 December 2010 .

#### Comments of the Management

Actions have been taken to furnish.

#### Recommendation

The recommendations of the Audit and Management Committee should be submitted to the Board of Directors and the decisions taken in this regard should be furnished to Audit.