

Galle Heritage Foundation - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galle Heritage Foundation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended 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 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, 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 of the Galle Heritage Foundation as at 31 December 2019, 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 Qualified Opinion

My opinion is qualified 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.

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

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 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 Foundation's financial reporting process.

As per 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 the Audit

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 the Galle Heritage Foundation 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 Galle Heritage Foundation;
- Whether the Galle Heritage Foundation has performed according to its powers, functions and duties; and
- Whether the resources of the Galle Heritage 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

1.5.1 Internal Control over the Preparation of Financial Statements

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 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Transactions worth Rs. 1,374,265 had been written off to the Consolidated Fund in the year under review without taking action to reconcile the changes that had been observed in relation to the transactions. Therefore, the balance of the accumulated funds stated in the financial statements had been understated by that amount.	Transactions had not been written off from the accumulated fund.	Action should be taken to examine the transactions and to reconcile the changes prior to writing off the transactions from the accumulated fund.
(b) Detailed documents pertaining to the withholding balance of Rs. 1,027,911 stated under current assets in the statement of financial position of the year under review had not been submitted to audit.	The detailed note in the general ledger is submitted.	Detailed documents relating to the balance under current assets should be submitted along with the financial statements.
(c) The allocation for gratuity for the year under review had been understated by Rs.605,916 in the financial statements. Therefore, the surplus for the year under review had been overstated by that amount in the financial statements.	I will make arrangements to rectify the understatement of the allocation for gratuity.	The correct value should be allocated for gratuity.
(d) Under the financial activities of the Cash Flow Statement, grants received from the Ministry had been understated by Rs.800,732 and employee loans had been understated by Rs. 122,777.	Answers had not been given.	Action should be taken to account the correct balances.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not Available	Comments of the Management	Recommendation
Fixed assets	40,900,661	(i) Fixed Asset Verification Reports (ii) Updated Fixed Asset Registers	We will take necessary action to submit the requested information to you in the future.	Updated correct registers relating to non-current asset balances presented in the financial statements should be submitted.

Stock	792,865	(i) Reports of Stock and Goods Survey Boards	-Do-	Action should be taken to submit the inventory pertaining to the stock balance and survey board reports to audit.
		(ii) Updated inventory		

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

The following instances of noncompliance were observed during the audit.

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
(a) FR 756 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Although the annual survey of goods had to be carried out, action had not been taken accordingly.	An Annual Survey of Goods has been conducted under the guidance of the Line Ministry. The Goods Survey for the year 2019 was conducted in March 2020.	Action should be taken to conduct annual surveys of goods in accordance with the Financial Regulations.
(b) In accordance with Paragraph 7.4.1 of the Public Enterprise Circular No. PED / 12 of 02 June 2003.	Although Audit and Management Committee meetings should be held quarterly, Audit and Management Committee meetings had not been held.	It is acknowledged that the Audit and Management Committee meetings should be held in accordance with the Public Enterprise Circular No. PED/12 dated 02.06.2003 and the Galle Heritage Foundation has duly attended the Audit and Management Committee meetings held by the Line Ministry, under which the Foundation has been functioning.	Audit and Management Committee meetings should be held in accordance with the Circular.
(c) Section 16 of the Galle Heritage Foundation Act No. 07 of 1994	Even though the Annual Report of the previous year had to be tabled in Parliament, it had not been accomplished so.	Comments had not been made.	The performance report should be prepared on the due date.

2. Financial Review

2.1 Financial Result

As per the financial statements, the operating result of the year ended 31 December 2019 amounted to a surplus of Rs. 3,956,108 and the corresponding deficit in the preceding year amounted to Rs. 223,182. Therefore, an improvement amounting to Rs. 4,179,290 or 1873 per cent was observed in the financial result of the year under review when compared with the financial result of the previous year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	A supplier had been selected for Rs.300,000 to set up a new website for the Galle Heritage Foundation and a sum of Rs. 224,250 had been paid in 2018 and Rs. 273,515 had been paid in 2019. Although it had been agreed to set up the Website for a sum of Rs. 300,000, an amount of Rs. 497,765 had been paid by 31 December 2019 without an approval. The work of setting up the website had not been completed and a sum of Rs. 197,765 had been overpaid by exceeding the value of procurement.	The web design work was completed at the beginning of December in the year 2019 and it is proposed to account the total cost after releasing the retained amounts under “Lanka Accounting Standards No. (LKAS) 38 - Intangible Assets”	The approval must be obtained for paying by exceeding the agreed amount.
(b)	The Kafa toilet system in Galle Fort was awarded to a contractor on 21 March 2019 at a contractual amount of Rs. 6,932,275 to modernize the toilet system in a way that it suited its architectural value and according to the agreement, the construction work was to be started on 25 March 2019 and to be completed on 26 August 2019. However, construction work was not completed until the end of January 2020 and however, a sum of Rs. 4,348,387 was paid for the bills that were submitted.	The Galle Heritage Foundation was unable to meet this target in the last quarter of 2017 as the Foundation had no specific institution or individual to prepare estimates for the project. Owing to this reason, the Karapitiya branch of CECB was selected in 2018 as the Consultant for this construction subjected to the approval of the Board of Management. Accordingly, they prepared the relevant bidding documents and submitted them on 08 March 2018. We commenced the procurement process on 09 March 2018 and selected a contractor. There has been a delay in the implementation of the project and transferring of the Galle Heritage Foundation to several Line Ministries on several occasions was one of the reasons for this delay.	Action should be taken to complete the relevant work on due time.

- (c) Although a Cabinet Memorandum was prepared in 2015 recognizing the need to amend the Galle Heritage Foundation Act No. 7 of 1994 to obtain the necessary powers for the Galle Heritage Foundation and to increase the revenue generation for the Foundation, amendments to the Act had not been made even by 31 December in the year under review.
- The Galle Heritage Foundation was under the purview of various line ministries on several occasions and the Foundation was also under the Ministry of Sports. Therefore, the work of making amendments to the Act could not be carried out successfully. However, I look forward to accomplishing this task even under the present Ministry.
- Action should be taken to get the Act amended.

3.2 Idle and Underutilized Assets

Audit Observation	Comments of the Management	Recommendation
<p>(a) Even though 16 canvases were painted at a cost of Rs. 1,520,000 in the year 2016 and the paintings were obtained to preserve the old Dutch War Room at the Moon Watchtower in Galle Fort and to transform it into an exhibition gallery reflecting the historical heritage of Galle, the paintings had been lying idle in the office premises of the Foundation for more than 6 years up to the date of this report, without accomplishing the task.</p>	<p>All the watchtowers, other than the Moon Watchtower, will be converted under the World Bank assisted projects into various galleries and museums for tourists to get experiences and it was decided to develop the Moon Battle Room as a special gallery for children. Accordingly, the original theme of the gallery was revised. Accordingly, the historical series related to the 16 paintings and 12 statues is being further developed and cartoon interpretation paintings are being added to make it more attractive to children. Likely, it is scheduled to carry out some of the work of the gallery under the World Bank projects.</p>	<p>Action should be taken to use the money by spending for the specified purposes.</p>
<p>(b) Even though a total of Rs.1,013,005 had been spent in 2015 for the installation of two air conditioners and for the installation of wooden frames to cover the power lines, the machines have been still idle due to non-completion of work in this room even by 15 June 2020, the date of audit.</p>	<p>Air conditioners are used in this war room for various exhibitions and during the daily opening of this room for travelers. This room was also used to temporarily house an exhibition gallery containing historical information on African slaves. We are of the opinion that one of the air conditioners may have been inactive due to the closure of the gallery during the period of CoViD - 19. It is proposed to complete the work of this gallery in the next few months. Sixteen (16) canvas paintings will also be displayed with children's paintings when the gallery is opened.</p>	<p>Arrangements should be made to complete the work in the room and make use of the air conditioners.</p>

3.3 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
<p>Although there were vacancies in the Posts of Chief Executive Officer, Administrative Officer, 06 Project Assistants and 02 Posts of Security Guard, action had not been taken to fill those vacancies. Even though 15 years have elapsed since the establishment of the Galle Heritage Foundation under the Galle Heritage Foundation Act No. 07 of 1994, a female officer had been recruited for the Post of Administrative Officer on contract basis with effect from 02 January 2006 and she had been employed in the Post for more than 14 years by extending the contract period annually.</p>	<p>I would like to inform you that action will be taken in the future to recruit officers permanently for the posts of Director and Administrative Officer. Officers from the Line Ministry have already been assigned to 04 Posts out of the 06 Posts of Project Assistant. Action will be taken to recruit for the Posts of Project Assistant and Security Guard as per the future requirements.</p>	<p>Action should be taken to fill the vacancies systematically.</p>