

Galle Heritage Foundation - 2020

01. Financial Statements

1.1 Opinion

The audit of the financial statements of the Galle Heritage Foundation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the income statement, 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 Finance Act, No.38 of 1971. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, the financial statements of the Galle Heritage Foundation give a true and fair view of the financial position as at 31 December 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for 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

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 determines 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 intends 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 of the Foundation.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

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:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design 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 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 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 Galle Heritage 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of Financial Statements

The Foundation is 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.

1.5.2 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulation 756 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Even though a Board of Survey should be appointed and an annual verification of stores should be carried out, it had not been done accordingly.	The request made to expedite the annual board of survey for the year 2020 has been forwarded to the Secretary of the Line Ministry.	Action should be taken to conduct annual board of survey in terms of Financial Regulations.
(b) Paragraph 12 (1) of Part II of the Galle Heritage Foundation Act, No. 07 of 1994	In terms of provisions of the Act, a fund had not been established for operations of the Foundation.	Has not commented.	Targeted objectives of the Foundation should be achieved.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the operating result for the year ended 31 December 2020 had been a surplus of Rs.55,286 as compared with the corresponding surplus of Rs.3,956,108 of the preceding year, thus observing a deterioration of Rs.3,900,822 representing 98.6 per cent in the financial result of the year under review as compared with the preceding year.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though a sum of Rs.11,760,121 had been spent by 31 December 2020 to preserve the old Dutch War Room at the Moon Bastion in Galle Fort and to transform it into an exhibition gallery reflecting the historical heritage of Galle, the said Moon Bastion had not been transformed into an exhibition gallery.	It had been informed that it is scheduled to be opened in future.	Action should be taken to utilize the provision for the relevant purpose.
(b) Even though a Cabinet Memorandum had been prepared in the year 2015 recognizing the need to amend the Galle Heritage Foundation Act, No.07 of 1994 to achieve objectives such as obtaining the necessary powers for the Galle Heritage Foundation and increasing the generating of income for the Foundation, relevant amendments to the Act had not been made even by 31 December of the year under review.	Relevant documents got down from the Ministry of Southern Development by the Galle Heritage Foundation to proceed with amendments to the Act, have been forwarded to the Ministry of Housing, Constructions and Cultural Affairs.	Action should be taken to make amendments to the Act.
(c) Even though sums of Rs.1,784,544 and Rs.2,395,266 had been spent by the Foundation for the first and second phases of fixing street lamps respectively and handed over to the	The community who live in World Heritage Galle Fort and tourists who visit Galle Fort have	Approval of the Ceylon Electricity Board should be obtained for the reimbursement of

Municipal Council, the sum of Rs.4,179,810 spent therefor, had not been reimbursed from the Electricity Company up to 16 December 2021, the date of audit.

run into severe difficulties due to these old street lamps remained inoperative for a long period. As such, the activity of repair and maintenance of these old street lamps were assigned to the Galle Municipal Council as a capital project of the Galle Heritage Foundation subject to the approval of the Board of Management of the Galle Heritage Foundation. As these old street lamp system is not a property of the Lanka Electricity Company (Private) Ltd., I would like to inform that the reimbursement of expenditure incurred therefor is not necessary. Further, street lighting is a service which is provided free of charge in Sri Lanka and it is mentioned that no fee whatsoever is charged for the said purpose.

expenditure incurred not for the electricity but for street lamps.

- (d) Books valued at Rs.275,000 had been purchased without considering the requirement of the year despite the fact that a stock of books and brochures valued at Rs.698,497 remained in
- Income of Rs.14,390 comprised a combination of both items of books and brochures. Moreover, an expenditure of Rs.275,000 had been incurred
- In maintaining stocks, action should be taken with maximum balance in working capital considering the prevailing Covid 19

the stores of the Foundation as at 01 January 2020. As such, stocks of Rs.954,634 had remained idle in the stores by 31 December 2020.

during the year for purchase of 1,000 copies of the book, "Heritage of the Walled City".

pandemic situation and liquidity.

Releasing a few books of high value as donations in official duties has resulted in sustaining a loss of Rs.4,474 from total sales activities.

A balance of Rs.954,634 was indicated as the value of year end closing stocks due to the Covid 19 pandemic.

- (e) **The Kafa toilet system and the toilet system on Church Street constructed by spending a sum of Rs.7,126,837 had been vested in the Municipal Council** for earning income without entering into agreements. As such, the income receivable to the Foundation, had been deprived of.

A toilet system is an essential necessity for tourists who visit Galle Fort. As such, the old toilet system on Baladaksha Mawatha was **removed** and the old Kafa toilet system was modernized so as to suit the Galle Fort and handed over to the Galle Municipal Council for maintenance.

As the Foundation is able to generate income from within the Fort, attention should be paid on generation of income.

- (f) The toilet system located behind the building used as Police Quarters on Church Street functioning under the Galle Heritage Foundation, had been renovated by spending a sum of Rs.1,966,306. However, the said toilet system had been locked even by 06 April 2021, the date of audit.

The toilet system used by the owners of Police Quarters which was constructed close to the old Police Quarters on Church Street, as well was handed over to the Galle Municipal Council for maintenance after renovations.

As the Foundation is able to generate income from within the Fort, attention should be paid on generation of income.

A final agreement will be reached after holding discussions on the possibility of eliminating these assets from our Register of Assets and including them in the assets of the Galle Municipal Council.

3.2 Human Resource Management

Audit Observation	Comments of the Management	Recommendation
Vacancies existed in the posts of Chief Executive Officer and Administrative Officer, 02 posts of Project Assistant and 02 posts of Security Guard. However, action had not been taken to fill the said vacancies.	Two Development Officers have been attached by the Ministry from 08.04.2021 for 02 vacant posts of Project Assistant and all recruitments have been withheld. The most senior officer in the Management Assistant Service has been appointed as Administrative Officer on the basis of “Attend to the duties”. Recruitments can be made for the 02 posts of Security Guard after obtaining approval from the Ministry. The qualifications mentioned in the Scheme of Recruitment should be revised before making recruitments for the posts of Chief Executive Officer/Director.	Action should be taken to fill vacancies properly.