

1. Financial statements

1.1 Qualified Opinion

The audit of the financial statements of the Tower Hall Theatre Foundation for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended and notes to 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 presented in Parliament appear in this report. In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Foundation as at 31 December 2021, 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 Qualified Opinion

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 (SLAuS). 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 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 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 Sub-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 Scope of Audit (Auditor's Responsibilities 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 skepticism 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 audit 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 audit 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 Foundation;
- Whether the Foundation has performed according to its powers, functions and duties;
- 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 Sri Lanka Public Sector Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
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a) Due to failure in annually reviewing the useful life of non-current assets in terms of Section 65 of Sri Lanka Public Sector Accounting Standard 07, the cost of 09 vehicles amounting to Rs. 37,296,993 still in use despite being fully depreciated had not been brought to accounts after revaluing the useful life in terms of Sri Lanka	As the final report has been received after revaluing the vehicles, it is kindly informed that the accounting process will be done in the year 2022.	The fair value of assets should be shown in the financial statements in terms of the Standard.

Public Sector Accounting Standard 03.

- b) **Contrary to Sections in Sri Lanka Public Sector Accounting Standard 07 relating to depreciation, the Head Office building of the Tower Hall Theatre Foundation costing Rs. 161,750,000 and the studio costing Rs. 1,250,000 had not been depreciated since 2017. As such, the expenditure on depreciation and the accumulated depreciation of the year under review had been understated by sums of Rs. 16,300,000 and Rs. 81,506,962 respectively during the period 2017-2021.**
- It is informed that action will be taken for depreciation from the year 2022.
- Expenditure on depreciation of assets should be correctly identified and brought to accounts.

1.5.3 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
a) Expenses incurred on the renovation of Elphinstone Theatre had been recognized as a fixed asset since 2019, but the accumulated depreciation had been understated by Rs. 9,557,988 as at 31 December 2021 as depreciation had not been correctly accounted for.	It is informed that corrective measures will be taken in the year 2022.	Action should be taken to compute depreciation correctly since date of identifying the expenses incurred on renovation of Theatre as a fixed asset, thus adjusting in the accounts.
b) Deferred cost on revenue amounting to Rs. 46,930,196 for the year 2021 had been credited to the general reserve after being withdrawn from the capital receipts reserve of the Government. However, the basis of recognizing the deferred cost on revenue had not been disclosed through notes to the accounts.	It is kindly informed that the basis followed to recognize the deferred cost on revenue will be disclosed in the year 2022.	The basis followed to recognize the deferred cost on revenue should be disclosed through notes to the accounts.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence Not Furnished	Comment of the Management	Recommendation
	Rs.			
Reserves	79,368,600	Information/files/registers relating to 05 account balances being brought forward in accounts over several years.	As no information whatsoever could be identified relating to those balances, this matter was taken for discussion at the meeting of the audit and management committee. It was proposed to query the state banks as to whether there were accounts being maintained relating to those balances under the Tower Hall Theatre Foundation, and letters of confirmation of balances have been sent to the banks. It is further informed that action will be taken in due course to look for information by examining the previous final accounts of the Foundation.	Action should be taken to furnish the evidence required for audit.

1.6 Accounts Receivable and Payable

1.6.1 Funds Receivable

Audit Observation	Comment of the Management	Recommendation
Debtors balances totalling Rs. 1,069,650 and Rs. 20,735 had been shown in the financial reports as being receivable	Requests had been made to those institutions in writing several times for recovery of those balances. However, no	Action should be taken for recovery of the outstanding loan balances.

from the Department of Cultural Affairs and the Ministry of Cultural Affairs respectively, but those institutions confirmed that there existed no such payable balances.

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

Reference to Laws, Rules, and Regulations etc.	Non-compliance	Comment of the Management	Recommendation
a) Section 08 of the Tower Hall Theatre Foundation Act No. 01 of 1978, and directives of the special deed dated 08 October 1980 relating to the vesting of Sausiripaya building and the premises thereof in the Foundation.	It was stated that the said land and the buildings should not be used on purposes other than encouraging and promoting national dancing activities, otherwise the properties shall be taken over by the Democratic Socialist Republic of Sri Lanka. Nevertheless, the Sausiripaya building owned by the Foundation along with the premises thereof, had been given on lease for 30 years each in 02 instances to the Construction Industrial Development Authority.	The Lease Agreement No. 188 entered into between the Tower Hall Theatre Foundation and the Urban Development Authority of Sri Lanka had been certified by the Public Notary, Mr. Maya Nanayakkara on 15 May 1986. Action had been taken in accordance with that agreement.	Provisions of the Act should be followed.
b) Section 06 of the Tower Hall Theatre Foundation (Amendment) Act, No. 11 of 1997.	Contrary to the objectives of the Foundation, approval of the Board of Trustees had been granted to construct an 08 storied multi-	As all those 03 theatres had been located in areas with high commercial value, a considerable	Provisions of the Act should be followed.

purpose commercial income would building under public- be earned by the private partnership by Foundation replacing the old through such Sausiripaya building constructions. and construct a multi- The income so storied building at the generated, land where the would be Rukmani Devi Theatre utilized for had been located in achieving the Nigambo. objectives of the Act.

c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

Financial Regulations 119(1), 119(2), and 233.

- The illegal overtime payment of Rs. 1,438,435 paid on 08 March 2019 to 51 employees without being approved, should have been recovered at once. However, the recovery had been delayed until October 2020, and the recovery had been made in installments. As the Director of the Department of Management Services had not given approval on those overtime payments so made, the overtime paid since September is being recovered in terms of the letter dated 2020.08.27. The Financial Regulations should be followed.
- Secretary to the Ministry shall authorize the recovery process to be done in more than 12 installments. However, the authority had been given by the Considering the low salaries of the staff, it is kindly informed that the Director General decided to recover the overtime payments in installments. The Financial Regulations should be followed.

Director General to recover the overtime in 48 installments. A balance of Rs. 612,345 remained further recoverable from 21 employees as at 31 December 2021.

d) Public Enterprises
Circular, No. PED/12, dated 02 June 2003.

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| (i.) Section 4.2.6 | Quarterly, half-yearly, and annual performance reports for the year 2021 had not been furnished to the Board of Trustees. | Corrective measures will be taken in the year 2022. | Provisions of the Circular should be followed. |
| (ii.) Sections 5.1.3 and 5.2.1 | The budget report for the year 2021 had been presented to the Auditor General on 28 June 2022. The budgeted statement of comprehensive income, statement of budgeted financial position, and the budgeted cash flow statement had not been presented along with the budget. | Due to delays of the meetings of the Board of Trustees, the budget report of the year 2021 had been presented to the Auditor General on 28 June 2021. The relevant registers will be prepared and presented in due course. | Should be presented on time as per provisions of the Circulars. |
| (iii.) Section 6.5.3 | The annual report of the year 2020 had not been tabled in Parliament even up to the date of this report. | As approval of the Cabinet has been received for the annual report of the year 2020, the report has been sent for printing. Once received after being | Provisions of Circulars should be followed. |

- printed, action will be taken to table in Parliament.
- (iv.) Section 7.3 Approval of the Line Ministry and consent of the Treasury had not been sought on the handbook of the Foundation that had been used since 1997 under approval of the Board of Trustees. As the handbook of the Foundation had prepared about 25 years ago, the handbook has been sent to the National Institute of Labour Studies for being revised in line with requirements of the present day. Once revised, approval will be obtained. Provisions of Circulars should be followed.
- e) Section 03 of the Public Finance Circular, No. 02/2020 dated 28 August 2020. The budget report, Action Plan and Procurement Plan for the year 2021 had been furnished to the Chief Accounting Officer on 28 June 2021. However, the internal audit plan and plan of imprests for annual activities had not been made available. It is kindly informed that action had been taken to furnish the budget along with the registers required for the year 2022. Provisions of Circular should be followed.
- f) Public Finance Circular, No. 01/2020 dated 28 August 2020.
- (i.) Section 11.04 Action had not been taken to report on shortages and excesses of items observed in the reports of board of Scheduled to be done within the next timeframe. Provisions of Circular should be followed.

survey prior to 28 February of the ensuing year of finance.

- (ii.) Section 11.05 Action had not been taken prior to 15 March of the ensuing year of finance relating to the items mentioned on Form General 47 in the board of survey. Scheduled to be done within the next timeframe. Provisions of Circular should be followed.

1.8 Management of Funds

Audit Observation -----	Comment of the Management -----	Recommendation -----
a) A sum of Rs. 23,343,775 had been allocated to pay gratuity as post employee benefits as at 31 December 2021, but the investment value of corresponding fixed deposits totaled Rs. 20,752,432. As such, an investment deficit of Rs. 2,591,343 was observed.	Due to unfavorable financial position, allocations for gratuity could not be made. It is informed that corrective measures will be taken on the said deficit in the year 2023.	Action should be taken to make investments in line with the allocations for gratuity.
b) A balance of Rs. 60,399,700 pertaining to the President's Welfare Fund for performing artists had been shown under reserves in the financial reports for the year 2021. Nevertheless, the total of fixed deposits relating to the said Welfare Fund amounted to Rs. 70,999,700. As such, balance of the Fund had been understated by Rs. 10,600,000.	The total of the funds amounting to Rs. 60,399,700 received by the President's Welfare Fund from time to time had been shown under reserves. That sum had been invested in fixed deposits and welfare activities had been done for the artists using the interest therefrom. The excess funds after paying benefits had been re-invested, thus the Fund had grown up to Rs. 70,999,700. At present, the said excess amount (Rs. 10,600,000) has been included in the accumulated profit under reserves in the	Interest income of the President's Welfare Fund should be transferred to the Fund from the accumulated profit.

final accounts. It is informed that action will be taken in due course to transfer that amount from the accumulated profit to the President's Welfare Fund.

1.9 Non-compliance with Tax Regulations

Audit Observation	Comment of the Management	Recommendation
Contrary to Sections 20(1) and 102 of the Inland Revenue Act No. 24 of 2017, the Foundation had not paid income tax for the assessment years of 2018/2019 and 2019/2020, nor had registered for income tax or requested for exemptions.	The Tower Hall Theatre Foundation had been exempted from income tax in accordance with Section 13 (2) of the Tower Hall Theatre Foundation Act No. 01 of 1978.	Provisions of the Inland Revenue Act should be followed.

2. Financial Review

2.1 Financial Results

Operating result of the year under review was a deficit of Rs. 77,244,494 as compared to the corresponding deficit of Rs. 96,531,981 for the preceding year, thus observing an improvement of Rs. 19,287,487 in the financial result. The reasons such as, increase in other income by Rs. 1,430,280 although the Government grants had decreased by Rs. 12,900,000, and the decrease in salaries and wages, repair and maintenance expenses, security expenses and expenses on depreciation by sums of Rs. 3,264,526, Rs. 3,197,475, Rs. 1,017,872 and Rs. 19,151,685 respectively had mainly attributed to the said improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
a) Action had not been taken to timely revise the Tower Hall Theatre Foundation Act No. 01 of 1978.	It is kindly informed that preliminary action has been taken to revise the Act.	Action should be taken to revise the Act.

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| <p>b) The Sausiripaya building and its premises belonging to the Foundation had been given on lease for 30 years to the Construction Industry Development Authority through a lease agreement signed on 06 March 2019 by a Director General who had not been formally appointed under a proper approval. Although a period of more than 06 years had lapsed after expiration of the initial lease agreement, no legal action had been taken to cancel the registration of illegal lease agreement subsequently entered into and evict the Construction Industry Development Authority that had continued to use the premises of the Foundation illegally without paying any lease rent.</p> | <p>No legal action was taken as the Construction Industry Development Authority was a state institution.</p> | <p>Legal action should be taken to evict the Construction Industry Development Authority from the premises of the Foundation.</p> |
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3.2 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>a) According to Section 40(1) of the National Audit Act, every auditee entity under purview of a Ministry shall have its own internal auditor ,who is to perform an internal audit duly appointed by the governing body of such auditee entity. Nevertheless, only one internal auditor had been included in the approved cadre of the Foundation, and action had not been taken to include the post of internal auditor into the approved cadre and appoint an internal auditor.</p>	<p>Noted for presentation when the Scheme of Recruitment is revised.</p>	<p>Provisions of the National Audit Act should be followed.</p>

3.3 Management of Procurements

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
<p>a) The Tower Hall Theatre Foundation had entered into a written agreement for one year from 11 March 2019 to 10 March 2020 with a private security service company for obtaining security services to the Tower Hall Theatre, Elphinstone Theatre, and Rukmani Devi Theatre. Although the agreed number of security personnel had not been provided for the Foundation, extensions had been given to the agreement in 10 instances during the period from 17 February 2020 to 11 January 2022 thus obtaining the service of that security firm. As such, the Foundation had not taken action in terms of Procurement Guidelines to make procurements for annual services.</p>	<p>Despite being informed through the Letter No. TF/AD/10/07 dated 2019-05-07 that an adequate number of personnel be deployed, it was later observed that it had not been done so. Financial position of the Foundation dropped due to poor income earned by the Theatres in the wake of Easter attack. An extension for 06 months had been given under approval of the Director General considering the reasons such as, higher costs would be incurred for publishing newspaper advertisements, the deposits had to be released, and their service remained favorable at that time. As the offices were closed thereafter and quarantine regulations came into effect, quotations could not be called.</p>	<p>The Foundation should take action to make procurements for annual services in accordance with Procurement Guidelines.</p>
<p>b) The Technical Evaluation Committee had reviewed the bid documents of 02 lowest bidders and removed them from being evaluated saying that the salaries were lower than that of the Wages Board and no information had been provided that services had been supplied to 02 Government institutions. The third lowest bidder had been selected, and consent</p>	<p>The said security firm had been selected in accordance with the procurement process, but given that financial position of the Foundation had remained further unfavorable, an overpayment of Rs. 700,000 would be paid annually to the security services supplier so selected in excess of the company already supplying security services; hence, attempts were made to obtain the service at prices prevailed</p>	<p>Action should be taken in accordance with recommendations of the Technical Evaluation Committee and decisions taken by the divisional Procurement Committee.</p>

of the divisional Procurement Committee had been given on 18 August 2021 for the said decision taken by the Technical Evaluation Committee. previously (the institution that supplied security services at that time). However, the institution selected by the Procurement Committee did not agree and action was taken as per the Procurement Guidelines to select the second lowest bidder under prices prevailed previously.

- c) After being informed to the selected bidder to make their presence for signing the agreement, that bidder had presented a performance bond in cash. However, an extension had been given in favor of the existing security firm without entering into an agreement with that bidder. Considering that the prices of existing security firm were lower than that of the ones selected by the Procurement Committee, action had been taken to inform the Board of Trustees that the service be obtained at existing prices. As such, an extension had been given to the existing firm until the decision of the Board of Trustees is given. Having considered the Board Paper sent to them, the Board of Trustees decided to proceed with the existing security firm by considering the benefits received by the Foundation. Decision of the Procurement Committee should be followed.
- d) A period of about one year had been taken for completing the procurement activities of the year 2021/2022. However, irrespective of the Procurement Guidelines and provisions of the Wages Board Ordinance, the contract had been awarded to the existing company without entering into a written agreement with that company. It is kindly informed that action had been taken to obtain security services in terms of the previous agreement. The Procurement Guidelines should be followed.

3.4 Human Resource Management

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
There existed 26 vacancies under 16 posts as at 31 December 2021 including 03 posts in the senior level, one post in the tertiary level, 06 posts in the secondary level, and 16 posts in the primary level.	Secretary to the State Ministry of National Heritage, Performing Arts and Rural Arts Promotion had instructed through a text message that the interviews scheduled to be held on 2020.12.21 and 2021.01.21 for filling some of the vacancies, be not held. The Director General had been instructed that all the recruitments should be suspended until further notice. Those vacancies could not be filled as the applicants had not qualified with National Vocational Qualifications. As such, no recruitments were made in accordance with Cabinet Memorandum titled "Review of public expenditure " dated 2021.08.28 and the said decision.	Some of the vacancies existed over several years. Action should be taken by the management to look into the matter as a post falls vacant thereby filling the vacancy expeditiously.

4. Accountability and Good Governance

4.1 Annual Action Plan

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
a) A sum of Rs. 58 million had been allocated for 35 programs/projects in accordance with the Action Plan presented for the year 2021. However, 21 of them had not been implemented, and the sum allocated thereon amounted to Rs. 13.478 million.	Twenty one programs could not be implemented due to Corona outbreak.	The Action Plan should be prepared realistically when it is possible to foresee pandemics or other crises.

4.2 Internal Audit

----- Audit Observation -----	Comment of the Management -----	Recommendation -----
According to the internal audit plan, only 2110 man hours equivalent to 66 per cent of the total number of man hours being 3184 had been utilized. It was observed that implementation of the internal audit plan remained poor.	The scheduled activities could not be executed due to Corona pandemic.	Action should be taken to prepare the plans realistically by considering the uncertainties.