

## **Tower Hall Theatre Foundation - 2023**

---

### **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 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements including material accounting policy information 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 Foundation as at 31 December 2023, 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 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 Audit Scope**

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 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 Institute 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; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standard**

<b>Non-compliance with reference to the relevant Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) In violation of paragraph 47(b) of Sri Lanka Public Sector Accounting Standard 03, due to the prior year error corrections of Rs.97,976,488 made in the year under review were accounted only to the prior year adjustment account without restating the opening balances, the balance of the capital grant account had been overstated by Rs.16,476,488 and the balance of the accumulated depreciation account and the accumulated deficit had been understated by Rs.81,500,000 and Rs.65,023,512 respectively at the beginning of the year under review.	It will be proceed as per 47 (b) of Standard No. 03 in the future.	The terms of the standard should be followed.
(b) The amount of Rs.1,410,800 paid in the year under review contrary to paragraphs 14(a) and (b) of Sri Lanka Public Sector Accounting Standards 07, in relation to the improvement work of the tower theater museum which is in an incomplete condition had been capitalized to the building account instead of being accounted under the work in progress.	It was capitalized as the work was completed and then due to a palm civet damaging the repaired area, it took a long time to repair the area again.	During the physical inspection conducted by the audit on 18th April 2024, the relevant work was still being carried out and this answer is incorrect. Assets should be capitalized as per Standards.
(c) As per paragraph 84 of Sri Lanka Public Sector Accounting Standards 07, the gain of Rs.690,773 arising from the disposal of motor vehicle had not been accounted in the year under review.	The gain was accounted as a payable amount as the proceeds from the disposal of the vehicles had to be remitted to the treasury.	The terms of the Standard should be followed.

- |     |  |   |   |
|-----|--|---|---|
| (d) | According to the paragraph 44 of Sri Lanka Public Sector Accounting Standards 11, although the revenue from non-exchange transactions should be recognized as income, it had not been act accordingly regarding the capital grants of Rs.24,305,703 out of Rs.24,490,000 received in the year under review.  | It was noted to prepare the accounts correctly according to Sri Lanka Public Sector Accounting Standards. | The terms of the Standard should be followed.   |
| (e) | In relation to the capital grants received in the previous years, Rs.195,336,663 which is to be identified as revenue had been stated in the statement of changes in equity as Government Capital Grants since the transitional provisions of 116 to 125 of the said standard have not been followed.  | It was noted to prepare the accounts correctly according to Sri Lanka Public Sector Accounting Standards. | The terms of the Standard should be followed.   |
| (f) | Although the investments with a remaining maturity of 03 months or less from the date of acquisition should be shown as cash and cash equivalents liquid assets in the statement of cash flows and the statement of financial position in accordance with paragraph 09 of Sri Lanka Public Sector Accounting Standards 02, the value of 03 fixed deposits amounting to Rs.22,000,000 to be matured in three months had been shown under current assets instead of being shown as cash equivalents. | It will be corrected in 2024 and restate it in 2023.  | According to the standard, investments of 03 months or less should be shown as cash and cash equivalents liquid assets. |

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although the amount to be accounted as buildings in the year under review is Rs.4,738,153, buildings had been over accounted by Rs.372,441 since it was accounted as Rs.5,110,594.	It will be adjusted and corrected in the year 2024.	Values of building should be properly identified and accounted.

- |     |   |   |  |
|-----|---|---|--|
| (b) | The deficit of Rs.14,844,240 in the year under review according to the financial statements was included in the cash flow statement as Rs.63,523,296 i.e. more by Rs.48,679,056 and due to the fact that, the depreciation expense of Rs.96,486,261 for the year was shown as Rs.96,533,261 i.e. less by Rs.47,000 and the gratuity paid of Rs.1,216,143 for the year as Rs.973,483 i.e. more by Rs.242,660, it was observed that the cash flow under operating activities in the statement of cash flow was not correct. | It was noted for correction.  | Actions should be taken to prepare the statement of cash flow correctly. |
| (c) | Due to the facts that, the investment interest amounting to Rs.41,480,317 received in cash during the year under review was stated as Rs.43,833,685 i.e. more by Rs.2,353,368 and the acquisition of fixed assets of Rs.34,220,807 was stated as Rs.47,169,426 i.e. more by Rs.12,948,619, it was observed that the cash flow under investing activities was not correct.   | A total amount of interest received in cash was stated as Rs.43,833,685 in the statement of cash flow shows and does not include only investments. It will be corrected in the year 2024 and restated in the year 2023. | Actions should be taken to prepare the cash flow statement correctly.    |

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Proper actions had not been taken to recover the debtor balance of Rs.1,203,583 for more than 05 years as at 31 December 2023.	These balances of more than 05 years were discussed in the previous audit and management committee meeting held in the year 2023 and instructions were given to present the details of those balances to the next committee meeting. It was noted to act accordingly.	Proper actions should be taken to recover the debtor balances existed from long period of time.

## 1.6.2 Payables

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The contract retention money of Rs.1,786,008, which has exceeded more than 05 years as of 31 December 2023 had not been settled.	It will be presented in the next Audit and Management Committee meeting and act according to the instructions.	Actions should be taken to settle the payable balance or take it into revenue.

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a deficit of Rs.14,844,240 and the corresponding previous year's deficit was Rs.80,792,883. Accordingly, an increase of Rs.65,948,643 was observed in the financial result. This growth was mainly due to the increase in total income by Rs.98,404,032 as increases of the income for the year under review by Rs.49,724,977 and deferred income (capital grant) by Rs.48,679,055.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) According to the terms of the special grant paper dated 08 October 1980 relating to the transfer of the Sawsiripaya building and its land to the foundation, although it has been stated that this land and the buildings located there should not be used for other purposes except for the purposes of encouraging and promoting national dance activities, and if it is not used for those purposes, it will be transferred back to the government, the Sawsiripaya building and the land which was with the foundation had been leased to the Construction Industry Development Authority on 02 occasions for 30 years since 15 May 1986 and the second agreement was entered into without formal approval. Without payment of rent even after the expiry of the lease period on 14 May 2016 and as per the decisions taken in the meeting chaired by the Prime Minister on 04 January 2023 and in the meeting chaired by the Secretary to the Prime Minister on 30 January 2024, it remained in the building	Since all negotiations have failed, a cabinet paper signed by the Honorable Prime Minister and the Honorable Minister has been submitted to the Cabinet for approval to remove the Construction Industry Development Authority from this building.	According to the decision given on 09 July 2024 for the Integrated Cabinet Memorandum No:AMA/24/1286//620/022 dated 27 May 2024, immediate actions should be taken to take over the building to the foundation and recover the arrears of rent.

without making arrangements to pay fees, enter into a new lease agreement or immediately establish that office in a building owned by the authority.

- |     |   |  |  |
|-----|---|--|--|
| (b) | Due to the inclusion of a condition disadvantageous to the Foundation that the lessees have the authority to sub-lease the whole or part of the leased property in the preliminary lease agreement entered into by the Foundation with the Industrial Development Authority, the said authority had sub-leased an area of 2017 square feet to the Construction Guarantee Fund (CGF) for the period from 01 July 2021 to 30 June 2023 at a monthly rent of Rs.227,000 and the auditorium had also been given to a external party on the lease basis. | Since all negotiations have failed, a cabinet paper signed by the Honorable Prime Minister and the Honorable Minister has been submitted to the Cabinet for approval to remove the Construction Industry Development Authority from this building. | Contracts should include terms that are not detrimental to the foundation. |
|-----|---|--|--|

### 3.2 Procurement Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The building behind Sarasavipaya which the original estimate was Rs.3,914,827 was awarded to the building department for the repair for the third increased estimate of Rs.7,219,643 and contrary to paragraph 5.4.4 of the procurement guidelines, 89 percent of amount i.e. Rs.6,461,374 was paid exceeding the advance limit of 30 percent without obtaining security. The overpaid amount of Rs.1,723,220 had been recovered in July 2024 after more than 09 months as its work value was Rs.4,738,154.	This situation has arisen due to the increase in the price of construction materials in the market by almost 200% due to the restriction of the import of goods due to the lack of dollars in the year 2022. Kindly mention that this repair was handed over to the building department which is a government agency.	Procurement should be done as per the provisions of the Procurement Guidelines.

### 3.3 Deficiencies in Contracts Administration

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The bid was awarded on 04 December 2023 to the Western Province Industrial Development Authority for the upgrade of a part of the Tower Theater as a museum at an estimate of	Although the Western Province Industrial Development Authority had requested to release	During the physical inspection conducted by the audit on 18 April 2024, it was observed

Rs.1,410,800 and the amount of Rs.1,340,260 was paid to the authority on 29 December 2023 deducting the retention amount of 5 percent of the total estimated amount. According to the letter of acceptance, although this work should be completed before 31 December 2023, the relevant work had not been completed by 18 April 2024, when the on-site inspection was conducted by the audit.

the entire amount at the beginning of the work, we did not release the money and as only a small amount of work was left, the cheque was issued on 31.12.2023. Later on, due to the damage done by a palm civet to the repaired area, it took a long time to repair the area again.

that the relevant work was still being carried out and this answer is incorrect. Payment should be made according to the certified value of work done.

#### **4. Accountability and Good Governance**

##### **4.1 Annual Action Plan**

###### **Audit Observation**

Due to the fact that the performance indicators related to each activity included in the 2023 action plan were not identified and the performance report was not prepared in accordance with the key performance indicators related to those activities, it was not possible to directly identify whether the desired objectives of those activities have been achieved.

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

It was noted to correct it in preparation of the Revised Action Plan 2024.

###### **Recommendation**

Key Performance Indicators related to each activity included in the action plan should be identified and the performance report should be prepared accordingly.