

## **Tower Hall Theatre Foundation - 2024**

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### **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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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.

### **1.3 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 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) According to paragraph No. 65 of Sri Lanka Public Sector Accounting Standard No. 07, the residual value and useful life of an asset shall be reviewed at least at the end of each annual reporting period. However, contrary to this requirement, the entity had fully depreciated three categories of assets with a total cost of Rs. 13,436,899 and included them in the financial statements at a zero value.	A considerable expenditure will be required to carry out the revaluation. Provisions have not been included in the 2025 budget estimates. However, as highlighted in the audit observations, arrangements will be made to include the required funds in the budget estimates of future years and to carry out the revaluation accordingly. At present, necessary actions have been initiated to revalue the auditoriums.	Action should be taken in accordance with the prescribed standards.
(b) Contrary to paragraph 47(b) of Sri Lanka Public Sector Accounting Standard No. 03, the prior year adjustments amounting to Rs. 97,976,488, made during the previous year, had been accounted in the prior year adjustment account without restating the opening balances. As a result, at the beginning of the previous year, the balance of the capital grant account had been overstated by Rs. 16,476,488, while the accumulated depreciation account had been understated by Rs. 81,500,000, and the accumulated deficit had been understated by Rs. 65,023,512. This	Based on the audit observations, necessary arrangements have been made to correct the error in the year 2025.	Action should be taken in accordance with the prescribed standards.

error had not been corrected during the year under review.

### 1.5.2 Accounting Deficiencies

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	According to the audit computations, the interest income for the year under review was Rs. 24,184,654. However, it was recorded as Rs. 26,045,324 in the statement of financial performance, resulting in an overstatement of income by Rs. 1,860,670 and a corresponding understatement of the deficit by the same amount. Furthermore, the interest income receivable on fixed deposits as at 31 December 2024 amounted to Rs. 3,126,004, however, it was recorded as Rs. 5,512,009 in the financial statements and therefore receivables amount had been overstated by Rs. 2,386,005.	The total interest income for the year 2024 has been calculated based on the monthly interest received from fixed deposits. Additionally, the interest receivable on fixed deposits with 5 year maturity period has been accounted under interest receivable at the end of the year. Necessary corrections will be made during the preparation of the final accounts for the year 2025.	Action should be taken to accurately account for the interest income from fixed deposits.
(b)	The withholding tax of 5 per cent had been deducted when accounting for interest income from fixed deposits and only 95 per cent of the interest amount had been recognized as income. As a result, the interest income for the year was understated by Rs. 1,097,929, and the withholding tax payable account was understated by the same amount.	Due to the absence of written evidence regarding the withholding tax, the amount had not been recognized as income. However, from the year 2025 onwards, written confirmation regarding the withholding tax will be obtained from the relevant bank, and the amount will be recognized as income accordingly. Furthermore, steps will be taken to disclose matters related to the withholding tax..	Income should be accurately recognized and accounted.

(c) The value of cassette and CD stocks was Rs. 2,445 as at 31 December 2023. However, it was brought forward as an opening balance of Rs. 543,969 in the year under review. As a result, the value of cassettes and CDs was overstated by Rs. 541,524 in the statement of financial position.

Accepted. An amount of Rs. 543,965, which was the closing balance of cassettes and CDs in 2023, was incorrectly included in the book Stock. This error was properly corrected in the year 2024.

A response has not been provided regarding the observation. The closing balance included in the audited financial statements of the prior year should be carried forward as the opening balance in the year under review.

(d) The book value of stock was Rs. 2,138,919 as at 31 December 2023. However, Rs. 1,588,454 was carried forward as an opening balance in the year under review. Therefore, the book value of stock was understated by Rs. 550,465 in the statement of financial position.

Accepted. The closing stock balance of cassettes and CDs in 2023, was mistakenly included under book stocks, and this variance in the statement of financial position was occurred due to correct adjustment made in 2024.

A response had not been provided regarding the observation. The closing balance included in the audited financial statements of the prior year should be carried forward as the opening balance in the year under review.

(e) The Foundation converted fixed deposits valued at Rs. 10,200,000 into cash during the year under review, however, this amount had not been disclosed under investment activities in the statement of cash flows. Additionally, although Rs. 703,384 had been paid as gratuity, it had been recorded as Rs. 816,370 under cash flows generated from operating activities in the statement of cash flows. Furthermore, when 2 vehicles were donated without any cash consideration, an amount of Rs. 1,768,611 had been incorrectly reported under investment activities in the statement of cash flows as proceeds from the sale of equipment.

The amount of Rs. 1,768,611 includes prior year adjustments and disposals related to property, plant, and equipment during the year. In accordance with the audit guidance, arrangements have been made to prepare the statement of cash flows accurately from the year 2025 onwards.

Financial Statements Should be prepared accurately.

(f) In the year 2023, an amount of Rs. 6 million received from the Industrial Development Authority as tax fees was recorded under deposits payable, and it had not been recorded as income in the prior year adjustment account.

It has been informed that necessary steps will be taken to solve this matter in the year 2025.

Cash receipts should be properly accounted.

### 1.5.3 Documentary Evidences not made available for Audit

Subject	Amount	Unsubscribed Audit Evidences	Comments of the Management	Recommendation
	Rs.			
Account balances remaining under deposits for more than 30 year	79,368,601	Schedules, Balance confirmations, Board approval	Instructions were given to transfer the these deposits to the consolidated fund, at the 44th Audit and Management Committee meeting held on 10 December 2024.	Board approval must be obtained to proceed in this manner in accordance with Paragraph 6.9 of the Operations Manual issued under Public Enterprises Circular No. 01/2021 dated 16 November 2021.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
According to the documents submitted to audit, the balance of debtors exceeding a period of 5 years amounted to Rs. 1,218,532.	The relevant parties have been continuously informed regarding the irrecoverable balances, and the Secretary to the Ministry has also discussed several times during the Audit and Management Committee meetings and actions will be taken to recover the debtor balances.	Action should be taken to recover the debt in accordance with the loan agreement.

### 1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
The retention amount of Rs. 1,639,116 due to the contractor for the renovation of the Foundation building in 2009, together with Rs. 192,639 of retention unclaimed by 8 other contractors since 2015, resulted in a total outstanding amount of Rs. 1,831,755 remaining withheld in the Foundation for over	As the Retention deposit amount belong to the contractors, they were retained until claimed by contractors. However, based on the guidance provided by the audit, the	Action should be taken in accordance with the Financial Regulations.

9 years without release. any action had not been taken in this regard in accordance with Financial Regulation 570. actions will be taken in 2025 in accordance with Financial Regulation 570.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review amounted to a deficit of Rs. 73,242,224 and the corresponding deficit in the preceding year amounted Rs.14,844,240. Therefore a deterioration amounting to Rs. 58,397,984 of the financial result was observed. The reasons for the deterioration are mainly due to the increase in the administrations expenses by Rs. 10,290,081, decreases in interest and other income by Rs.18,033,246 and the decreases in government recurrent grant by Rs. 15,190,000.

## **3. Operational Review**

### **3.1 Operational Inefficiencies**

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Although the annual action plan of the Tower Hall Foundation and budget should be prepared in accordance with strategic plans to achieve the objectives and purposes set out in Section 6 of the Act, an amount of Rs. 31,184,132 had been spent to achieve those objectives, while maintenance and administrative expenses amounted to Rs. 119,885,037 during the year under review. Accordingly, only 20 per cent of the expenditure was directed toward achieving the objectives, whereas 80 per cent had been spent on maintenance and administrative costs. This indicates that when preparing the budget and action plan, insufficient attention had been given to achieve the objectives expected under the Act.	In addition to the amount of Rs. 17,556,252 spent for achieving objectives and purposes, it provides financial assistance to artists in accordance with Section 6(a) of the Act of the Tower Hall Foundation. Accordingly, an amount of Rs. 13,627,880 had been spent in 2024 for the welfare activities of artists. The development, improvement, and maintenance of theatres to promote and encourage national dance activities fall within the objectives and purposes of the Foundation. Among these objectives, improving auditoriums to be suitable for drama and theatrical performances is also included in the purposes of the Act.	Any response had not been submitted regarding the observation. Funds should be spent in a manner that fulfills the objectives and purposes set out in the Act.

(b) The office of the Construction Industry Development Authority, located in the Savsiripaya building belonging to the Tower Hall Foundation, was required to vacate the Foundation premises in accordance with the Cabinet decision dated 16 July 2024, and instructions had been given to the Secretary to the Ministry of Urban Development and Housing to take immediate action to pay the Rs. 145 million which was payable to the Foundation. However, the Authority had not vacated the Foundation premises as of the audit date, 30 June 2025 and Rs. 120 million of the outstanding amount had not been collected. Moreover, the relevant Line ministry had not been intervened to implement the Cabinet decision.

According to Paragraph 9 (2), the Board of Trustees holds the authority to manage, control, and operate the funds of the Foundation. As noted in the audit inquiry up to date, any notification has not been given to the National Budget Department or the General Treasury regarding the funds earned by the Tower Hall Foundation.

Action should be taken in accordance with the Cabinet decision.

#### 4. Accountability and Good Governance

##### 4.1 Submission of financial statement

Audit Observation	Comments of the Management	Recommendation
According to Paragraph 6.6 of the Operations Manual of the Public Enterprises Circular No. 01/2021 dated 16 November 2021, the accounts should have been submitted to the Auditor General along with the drafted annual report within 60 days of the end of the financial year. However, the financial statements of the Foundation for the year 2024 were submitted for audit on 22 April 2025.	The financial statements for the year 2024 were prepared by the prescribed date and Submission of the financial statements 2024 to the Auditor General was delayed due to the postponement of the Board of Trustees meeting, However, the statements had been submitted to the Audit and Management Committee meeting held on 19 March 2024. The 308 Board of Trustees meeting was held on 9 April 2025, and with the approval granted therein, the financial statements had been submitted for audit on 22 April 2025.	The financial statements should be submitted to the Auditor General within 60 days of the end of the financial year.

## 4.2 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
10 Expenditures items had been exceeded the limits specified in the annual budget document by Rs. 15,728,894, while the total provisions for 10 items amounting to Rs. 4,298,000 remained unutilized. Accordingly, the budget of the Foundation had not been used effectively as a control mechanism.	Funds received for capital grant had been recorded under the maintenance account, and The expenditure limits in the annual estimate were exceeded due to the unexpectedly high expenses for auditorium sanitation and stationery. Provisions remained unutilized due to allocations for gratuities, salaries, and wages being lower than expected.	The budget should be used as an effective management control tool.