

Sri Lanka Tourism Development Authority - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Tourism Development Authority as at 31 December 2012 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Scale Institutions.

1.2 Comments on Financial Statements

1.2.1 Non - compliance with Sri Lanka Accounting Standards (SLFRS) for Small and Medium Scale Institutions

Following noncompliance instances were observed in audit.

Reference to Sri Lanka Accounting Standards (SLFRS) for Small and Medium Scale Institutions	Non Compliance
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(a) Section No. 17

If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued. However, without being revalued the entire lands and buildings owned by the Authority, only the land and buildings at the head office had been revalued and shown in the financial statements as Rs. 1,378 million, based on the revaluation. Due to the non-valuation of the other lands and buildings, the fair value of the land and buildings of the Authority were not reflected in the financial statements.

- (b) Section No. 20 Lessor shall present assets subject to operating leases in their statement of financial position according to the nature of the assets. However, lands and rest houses given under the operating lease had not been shown in the statement of financial position of the Authority. Details with evidence of those lands and resorts had not been presented to audit.

1.2.2 Accounting Policies

Following observations are made.

- (a) Accounting policy for the provision for bad debts had been made as 25 per cent to 100 per cent for debtors remaining with recovery delays from 2 to 4 years without considering the nature and recoverability of the receivables. An approval of the Board of Directors had not been taken to implement this policy.
- (b) Policy for identification of ratio of tax to be collected from rented out lands and buildings given on long term and short term basis had not been disclosed in the accounts.

1.2.3 Un-reconciled Control Accounts

Following differences were observed between the Financial Statement of the Authority and related subsidiary records, due to non-reconciliation of balances with the relevant subsidiary records.

Description	Balance as per financial statements Rs.	Description of subsidiary financial records	Balance as per the subsidiary financial records Rs.	Difference Rs.
Payable to Sri Lanka Convention Bureau.	26,848	Statement of financial position of Sri Lanka Convention Bureau.	20,170,673	20,143,825

Payable to Sri Lanka Hotel and Management Institute.	6,511,960	Statement of financial position of Sri Lanka Hotel and Management Institute.	61,337,342	54,825,382
Receivable from Sri Lanka Tourism Promotion Bureau	26,948,539	Statement of financial position of Receivable from Sri Lanka Tourism Promotion Bureau	24,371,042	2,577,497

1.2.4 Accounts Receivable and Payable

Out of the trade debtors, a sum of Rs. 1,978,954 was outstanding for over 4 years and a sum of Rs. 96,514 was outstanding for over 3 years and below 4 years . Further, miscellaneous debtors amounting to Rs. 1,748,633 was outstanding for over 4 years.

1.2.5 Lack of Evidence for Audit

As per the following investment classification, those investments could not be verified due to nonproducing evidence to audit mentioned in front of them.

Investment classification	Amount Rs.	Evidence not produced
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Investments for Depreciation (Tourist Board)	52,154,737	I. Investment Certificate or other written document II. Balance confirmation letters
Investments for Depreciation (Tourism Promotion)	976,509	
Sinking Fund	759,021	
Sri Lanka Tourist Hotel Company Ltd.	750,000	
		I. Share certificates or other written document II. Balance confirmation letters

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

Instances of non-compliance observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----
(a) Tourism Act No 38 of 2005 I. Section 12(4)(iii) of Chapter 1	Approval of the Minister had not been taken for the sum of Rs. 6,290,068 contribution made by the Authority from the interest relating to the loan of Rs. 100 million issued to a private hotel by the Bank of Ceylon.
II. Section 7(3) of Chapter 1	The quorum of 05 Director Board members had not been available to make the decision taken in the Board of Directors meeting on 6 June 2010 to bear above interest by the Authority to be active.
(b) Guideline Circular dated 12 July 1995 issued by the Secretary to the President.	Although the lease agreements and lease amount should be revised in every 5 years when leasing the state lands, actions had not been taken to comply with this circular with regard to lands given on lease by the Authority.
(c) Public Enterprise Circular No.PED/12 of 2 June 2003:	
(i) Section 9.3.1 (i) of Chapter 9	Although the scheme of recruitment and promotion for each post should be approved by the Board and the Ministry together with the concurrence of the Department of Public Enterprises, with regard to recruitment of staff to new section named “One Stop Unite” had not been done to complying with this requirement.

(ii) Section 9.14.1 of Chapter 9

Although the manual of procedures with a chapter on human resource management providing rules and regulations on all matters relating to management of human resources should have been approved by the Board of Directors together with the concurrence of the Secretary to the Treasury, the Authority had failed to comply with that requirement.

(d) Management Services Circular No.33 dated 5 April 2007

A sum of Rs. 3,780,253 had been over paid to the staff of the Project at Kalpitiya from the year 2009 to 31 December 2011, exceeding the Project staff allowed to obtain salaries specified for the foreign funded projects exceeding USD 30 million.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2012 had resulted in a surplus of Rs. 183,037,093 as compared with the corresponding surplus of Rs. 132,206,537 for the preceding year, thus indicating an increase of Rs. 50,830,556 in the financial results. The increase of Tourism Development and Embarkation Levy and other income by Rs. 61,771,573 was the main reason for the increase in financial results.

2.2 Analytical Review

The revenue of the Authority for the year under review was Rs. 406 million as compared to Rs. 345 million in the preceding year representing an increase of 17.6 per cent. Whereas the expenditure spent for the tourism development activities during the year under review was Rs. 223 million, when compared with Rs. 213 million of the previous year. Thus an increase of 4.6 per cent was shown.

2.3 Working Capital Management

There was an excess cash balance over Rs. 80 million in the bank account throughout the year under review without being invested.

3. Operating Review

3.1 Performance

Following observations are made.

(a) Performance of the Resorts

There were 04 Tourist Resorts and 03 Holiday Resorts under the ownership and management of the Authority. The net surplus of Rs. 5,355,575 from these Resorts in the year 2011 as compared with net accumulated surplus for the year under review was Rs. 13,080,510. There was a deficit of Rs. 12,012,571 in one holiday resort due to high overhead expenditure. As a result, overall profitability of the Resorts operations was only 16.4 per cent when compared with the total revenue generated.

(b) Objectives and Goals which Could not be Achieved by the Authority During the Year Under Review or Even by Now

There were no evidences to confirm that the following objectives and goals were achieved as per the Tourism Act No 38 of 2005.

- i. Preparing long term goals and four years plans, and taking approvals of the Cabinet of Ministers and doing revisions with the idea of including new long term goals and taking approvals of the Cabinet of Ministers.
- ii. Prepare policies for specific matters referred in the Act and thereby, improve nationally and internationally recognized standards with regard to the tourism industry and other related industries giving licenses and authority to tourism entrepreneurs for activating and maintaining.

- iii. Establishment of general or other boards to achieve objectives of the Act.
- iv. Engage in business in providing transport facilities to people who are travelling to places that captured minds of tourists in Sri Lanka.

3.2 Management Inefficiencies

(a) Lands and Properties Management

Following observations are made.

- i. Out of lands area of 510 acres approximately from the Kuchchweli area in Trincomalie and acquired many years ago to the Authority, actions had been taken to develop or to rent out to investors was only about 50 acres of lands during the year under review.
- ii. Even as a primary control measure, a register for lands and buildings indicating particulars relating to the deeds of the properties, transfers and additions, developments etc. had not been maintained.
- iii. According to the sample test conducted by the audit, though the Gazette Notification had been issued to acquire 56 rest houses and 166 land blocks with an area of 6,495 acres, only a part of it had been acquired at the end of the year under review.

(b) Issue of License

Following observations are made.

- i. When printing the permits issued at the time of cash receipts for canteens and resorts which were maintained for tourists with the approval of Tourism Development Authority, the ascending number and counterfoil had not been printed. Internal control had not been implemented by the management accordingly in storing and issuing these permits based on sufficient security controls.

- ii. Only the signature had been placed without using an official stamp by including the name of the officer, designation and the date of the authorized officer who signs permits issued to tourist guides by the Authority. Because of this reason sufficient management control policies had not been introduced to avoid misuse of these permits.

3.3 Idle and Underutilized Assets

The bus purchased for Rs. 5,934,000 and repaired later for Rs. 2,667,929 and running had been suspended from June 2012.

3.4 Uneconomical Transactions

A sum of Rs. 2.1 million had been spent up to now for security purpose from 02 years before for 07 Holiday resorts in Bibile, Ragala, Horowpathana, Mahiyanganaya, Weeraketiya, Baththulu Oya and Nikaweratiya. But these resorts had not been utilized effectively.

3.5 Identified Losses

Following observations are made.

- (a) Cultural Centre Building (Dutch Hospital) of the Authority which is situated in Colombo had been transferred to Urban Development Authority for a sum of Rs. 7,274,715 lesser than the deducted depreciation amount.
- (b) A loss of Rs. 133,138 had been occurred to the Authority due to purchase of 13 stocks items in the main stores for higher prices than the marked prices.

3.6 Contract Administration

The audit observation with related to construction of rain water drainage system of Pasikuda Tourist Resort Project

- (a) The measurement notes and specifications had not been prepared by considering geographical aspects of the land of construction project in progress.
- (b) The Director of the Planning and Development Unit of the Authority has performed as the Chairman of the Project Technical Evaluation Committee and payment vouchers amounting to Rs . 31,394,813 had been certified by him. Also the measurement notes and above payment bills with regard to above payment vouchers had been checked, certified and prepared by the Resort Officer who worked under the said Director on contract basis. It was not satisfied in audit that professional competence and the independency of these officers on these activities.

3.7 Delays in Projects

Following observations are made relating to the implementation of Kalpitiya Integrated Resort Project which has been scheduled to construct 4,000 additional rooms and infrastructure facilities with the estimated cost of Rs.5, 521million.

- (a) Policy approvals to implement the Kalpitiya Integrated Resort Project had been obtained from the Cabinet of Ministers and the National Policy Planning Department of the Treasury in 2008 to complete the Project within five years. However, even after lapse of four years, even a single room had not been completed up to 31 December 2012.
- (b) A Project implementation plan and a detailed budget covering the project management expenses, consultancy and capital work etc. had not been prepared.

- (c) Though the plans under this project had been made to give 14 lands to investors, only 4 land lots had been given to investors at the end of the year under review.

3.8 Human Resource Management -----

Approved cadre of the Authority was categorized under 31 posts, and 192 cadre was approved by the Management Service Department. The actual cadre for the year under review and the preceding year was 154 and 176 respectively.

4. Accountability and Good Governance -----

4.1 Corporate Plan -----

A Corporate Plan for the Authority for the year 2012 to 2016 had been prepared. The targets had not been made for some items mentioned in the plan and the targets to be achieved at the end of each year had not been updated and reviewed in timely manner.

4.2 Action Plan -----

An Action Plan had been prepared for the year under review. A methodology had not been introduced to achieve the timely progress of the Action Plan by mentioning time constrains of the Action Plan.

4.3 Budgetary Control -----

Significant variances (variance more than 20 per cent) were observed between the estimated expenditure and the actual in 20 expenditure items for the year under review, thus, it was not shown that the budget had been made use of an effective instrument of management control.

5. Systems and Controls

Observations made in systems and controls during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting.
- (b) Development programmes.
- (c) Project management.
- (d) Assets management.
- (e) Accounts Receivable and payable.
- (f) Issuing of license.