

Sri Lanka Tourism Development Authority - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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 Financial 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 Authority as at 31 December 2019, 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 based 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 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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.

1.4 Auditor's Responsibility in Auditing 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:

- 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.
- Obtained 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 Authority'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 Authority'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 to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including disclosures, and the transactions and events on which the content is based are appropriately and fairly included in the financial statements.

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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the it 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 Financial Statements

1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the transfer certificates of land had been issued for lands valued at Rs.173,153,909 in the year 2017, the value of the land had been accounted for as an advances rather than the fixed assets during the year under review.</p>	<p>Since the written confirmations of the completion of this project have not been provided to the Finance Division by the relevant Division at the time of preparation of the financial statements, it has not been accounted for in this regard.</p>	<p>The accounting deficiency needs to be corrected.</p>
<p>(b) Even though the advance paid for the acquisition of lands for the Kalpitiya Tourism Development Zone was Rs.61,314,891 as per the financial statements, it was Rs.69,234,427 according to the balance confirmation sent by the Divisional Secretary. Accordingly, a difference of Rs.7,919,536 was observed.</p>	<p>This difference is indicated because of the interest income for the years 2018 and 2019 has not been adjusted to the above balance. As any written confirmation of receipt of interest income on the advances to the Authority has not been received from the relevant division, the interest income has not been taken into accounts.</p>	<p>The accounts should be properly prepared identifying the difference.</p>

- (c) Although the telephone / janitorial services and security charges receivable from the Sri Lanka Tourism Promotion Bureau according to the financial statements of the year under review was Rs. 33,267,512, thus the balance to be paid was Rs. 53,531,048 as per the financial statements of the Bureau, a difference of Rs.20,263,536 was observed.
- Preparation of a balance reconciliation will be carried out soon and if there are any unresolved balances, it is expected to be settled under the guidance of top management.
- Accounting deficiencies should be corrected by reconciling the relevant balances.
- (d) Although the administrative expenses to be received from the Tourism Development Fund as per the financial statements for the year under review was Rs. 193,899, since the balance payable was Rs.1,245,082 according to the financial statements of the Fund, a difference of Rs.1,051,183 was observed.
- Computing of 0.5 per cent out of the tourism development levy receivable as at 31 December 2019, administrative expenses amounting to Rs.193,899 had been brought to accounts.
- The difference between accounts receivable and payable should be corrected.

1.5.2 Lack of written evidence for the audit

 The following observations are made.

Item	Amount Rs.	Unavailable Audit Evidences	Comments of the Management	Recommendation
(a) Investments	54,640,268	Investment certificates or other written evidence	Actions will be taken to remove these balances from the books.	It should be confirmed by relevant evidence.

(b) Receivables	340,712,192	Balance Confirmation Letters	The balances of the debtors are being received. Actions are being taken to analyse and to obtain the relevant balance confirmations.	Relevant balance confirmations should be furnished .
(c) Advances	1,358,900	Balance Confirmation Letters	The list of balances relating to advances has been furnished	Relevant balance confirmations should be furnished .

1.6 Accounts Receivable

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Out of the balance of Rs.108,391,047 mentioned as receivable from the Sri Lanka Tourism Promotion Bureau as at 31 December 2019, the balance for more than 05 years was Rs.28,742,857.	The building rent receivable from the Sri Lanka Tourism Promotion Bureau included in the balance amounted to Rs.75,123,535 had not yet been received and it is expected to settle them by reconciling balances.	The balances receivable should be recovered promptly.
(b) Out of the balance of Rs.101,717,640 stated as trade debtors as at 31 December 2019, the balance for more than 04 years was Rs. 26,386,007. Further, since a balance of Rs.15,566,948 for more than 04 years also had remained within the retention money of Rs. 40,670,458, action had not been taken to settle those balances.	It has been difficult to recover the debt as the debtor was given a grace period so far after the Easter Attack of the year 2019. Out of the balance retained, it is expected to act to remove the balance for more than 4 years from the books in future.	The balances should be recovered.
(c) Actions had not been taken to recover the deposits amounted to Rs.3,536,671 made for the	Proper actions will be taken to discuss with the Sri Lanka Tourism Promotion Bureau about the money	Actions should be taken to recover the balances.

rent for overseas offices from the year 1989 to 2007 in the balance of deposits receivable amounted to Rs. 9,441,582 as at 31 December of the year under review .

deposited for rent for overseas offices in the deposit account receivable and to look into the value retained as withholding tax and to take proper actions.

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

The following observations are made.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
	-----	-----	-----	-----
(a)	Sub-section 26 (3) of Chapter IV of the Tourism Act No. 38 of 2005	The Regulations had not been made prescribing the tourists services, commercial and other activities that could be carried out within any declared tourism development area.	The information are being collected on tourism, commerce and other activities for valid tourism development areas and it has been planned to draft the regulations relevant to that by the end of 2020 .	Actions should be taken in accordance with the provisions of the Act.
(b)	Financial Regulation 757 of the Financial Regulation of Democratic Socialist Republic of Sri Lanka	A Board of Survey had not been carried out in respect of library books amounted to Rs.1,880,781.	As the library books ownership has been undertaken and maintained by the Sri Lanka Institute of Tourism and Hotel Management, actions will be taken to transfer them to that institution.	Actions should be taken in terms of the Regulation.
(c)	The Scheme of Recruitment approved by the Department of Management Services on 09 February 2010	A sum of Rs. 8,196,756 had been paid as salaries and various allowances from 02 May 2016 to December 2019 Appointing an	Her service is important and the management expects to continue her service due to knowledge, experience, understanding, ability	The qualifications relevant to the Scheme of Recruitment should be fulfilled.

officer who does not have the required service experience stated in the approved Scheme of Recruitment of the Authority .

to perform duties with less advice, self-motivation and commitment of the relevant officer.

2. Financial Review

2.1 Financial Results

The financial result of the year under review was a surplus of Rs. 119,458,429 and the corresponding surplus for the preceding year was Rs. 280,425,355 . Accordingly, a deterioration of Rs. 160,966,926 was observed in financial results. Although the fees and license income had increased by Rs. 55,554,696 decrease in income of embarkation levy by Rs. 102,994,589 and increase in trade related expenses by Rs. 22,983,113 and increase in supply and consumable used Rs. 31,333,786 had mainly attributed for this deterioration.

3. Operational review

3.1 Management Inefficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
The Calido Beach Park project, which was started in 2013 without a pre-feasibility study, was halted in 2016 and Rs. 19,990,021 had not been recovered for the advance paid even at the end of the year under review.	An advance of Rs. 19,990,021 had been given to the Central Engineering Bureau in the year 2013 for the Kalutara Calido Beach Park Project and the Project has been stopped in the year 2016. A sum of Rs. 26.186 million have to be paid to the Central Engineering Bureau for the renovation of buildings on the premises of the Authority in the year 2014 and the Central Engineering Bureau has informed that except for the capital expenditure of Rs. 4 million nearly, the balance amount should be set off from the funds of the Calido Project.	Actions should be taken to recover the relevant advances.