

## **Tourism Development Fund - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Tourism Development Fund for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, 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(3) 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 . 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 Tourism Development Fund as at 31 December 2021, 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**

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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**

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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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Responsibilities for the Audit of the Financial Statements**

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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.
- 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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- Whether 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**

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### **1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards.**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>Accounting policies should be selected and applied consistently in terms of the standard No. 03, and if a policy is changed, it should be disclosed. However the statement of cash flow of the fund had been prepared using the direct method in the preceding year and had been prepared using the indirect method during the year under review. Nevertheless, it had not been disclosed. Further, the preparation of the statement of cash flow using the direct method gives more appropriate and accurate information for the users as the fund has not been involved in operational activities and only does collecting of funds and disbursement of those among the other institutes, it had been ignored and prepared the statement of cash flow using the direct method.</p>	<p>Furnishing the statement of cash flow as per the standard had been changed from direct method to indirect method. Indirect method will be used again in preparing the financial statements for the year 2022.</p>	<p>The statement of cash flow should be prepared in accordance with the Sri Lanka Public Sector Accounting Standards.</p>

## 1.5.2 Unreconciled Accounts

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(i) Receivable Accounts -Sri Lanka Tourism Development Authority	470,884	703,607	232,723	Daily collection of the fund aggregated to Rs.703,607 had been deposited to Authority's account mistakenly. Only Rs.470,844.00 had been recognized by the fund as receivable from the Authority. However, it was later identified that this total amount should be received to the fund.	Actions should be taken to resolve.
(ii) Accounts Payable -Sri Lanka Tourism Development Authority	4,732,903	2,803,815	1,929,088	Answer had not been given.	Actions should be taken to resolve.

## 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Chapter iii of the Tourism Act No. 38 of 2005 Section 23 (2) (a)	The provisions had not been made available in respect of the deduction of Rs.12,409,698 or 2.5 percent made as service charges in the year under review relating to 1/3 of the Embarkation Levy collected by the Civil Aviation Authority of	As per the Letter No. PF/R/4/019 of 29 January 2009 which was furnished by the Civil Aviation Authority of Sri Lanka to us, it had been mentioned that the General Treasury had	Compliance to the provisions of the Act is required.
(i)				

		Sri Lanka and remitted to the Fund.	approved to reduce 2.5% of this service charges.	
(ii)	Section 24 (3)	The Rules for the management and administration of the Tourism Development Levy had not been formulated in accordance with the Section. However, the administrative expenses amounted to Rs.3,656,520 had been paid during the year under review as per the decision of the Board of the Directors.	Further actions will be taken for this after amending the Tourism Act No. 38 of 2005.	Actions should be taken to formulate the rules for the management and administration of the Tourism Development Levy.
(b)	Section (3) of the Part I of the Finance Act No.35 of 2018	Although, levy collected at the rate of 0.5 per cent from the institutes which had obtained the license under the Tourism Act No. 38 of 2005 should be furnished to the consolidated fund within 30 days from the date of collection of the levy, the levy collected so in 2020 and from January to November in 2021 amounting to Rs.7,591,174 had been remitted on 02 February 2022 without remitting within 30 days of the date of collection.	The priority was given to disburse the money collected as the country was locked down time to time due to the impact of covid 19 in the year 2021 and the difficulties faced in calling officers to work. However, the levy collected at the rate of 0.5 per cent from January to December in 2021 had been paid by Bank of Ceylon cheque number 191119 dated 2022/02/02.	Adherence to the Act should be required.

**2. Financial Review**

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**2.1 Financial Results**

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The income of the Fund during the year under review as per the financial statements submitted was Rs.1,313,694,142 and the corresponding income in the preceding year was Rs.1,037,291,031 thus indicating an improvement of Rs.276,403,111 in the income of the year under review as compared to the preceding year. Accordingly, increase in tourism development levy and embarkation levy by Rs.271,798,009 and increase in other income by Rs.4,605,102 in the year under review as compared to the preceding year had been mainly attributed to the above improvement .

**3. Operating Review**

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**3.1 Management Activities**

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**Audit Observation**

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Even though, a sum of Rs.115,403,635 had been directly remitted to the Bank from the year 2017 to the year 2021, it had been continuously brought forward under current liabilities instead of identifying properly and then bring into accounts.

**Comments of the Management**

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Hence some levy payers have not mentioned the details of their payments when the on line method and money deposit machines are used for payments, the unidentified money had been gradually increased during the years of 2020 and 2021 (at the time that the country was locked down) with compared to the years of 2018 and 2019.

As an initial step of resolving this matter, we have sent an unidentified list of money to all institutes through electronic mails and if the payment made by them was appeared in the list, every institute was requested to send the relevant money deposit slip. However, some of them have informed about misplacement of documents. Further, some business entities are still closed and it was informed that the operations have not yet been commenced.

As a result of sending the list of unidentified deposits to the corporate branch of Bank of Ceylon, an updated list which included details of depositors will be forwarded (once in two weeks) to us by them. Therefore, the maximum efforts have been taken by the finance division to resolve this problem.

**Recommendation**

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A system should be created to identify accurately the direct remittances made to the bank and to update the accounts.