

Sri Lanka Tourism Development Authority - 2021

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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.

Due to the effects of the matters described in Paragraph 1.5 of this report, I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in Paragraph 1.5 of this report.

I was unable to confirm or verify by alternative means, material items included in the statement of financial position, statement of financial performance and statement of changes in equity. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of financial performance and statement of changes in equity

1.3 Responsibilities of Management and Those Charged with Governance forthe 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 Bureau 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.

1.4 Auditor's Responsibility in Auditing Financial Statements

My responsibility is to conduct an audit of the Authority's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
Although, the fair value related to the investment properties should be separately shown in the statement of financial position as per the Sri Lanka Public Sector Accounting Standard No.13, fair value of the leasehold land extent of 35 acres at Yala tourism development zone amounting to Rs.280,000,000 had not been shown in the financial statements.	Actions will be taken to rectify during the accounting year of 2022.	Compliance to Sri Lanka Public Sector Accounting Standard is required.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A sum of Rs.6,496,096 which had been given for the programs executed by each provincial councils from the year 2016 in view of providing facilities required for the tourists had been recorded in the books of accounts as work-in-progress under non-current assets of the statement of financial position instead of recognising as the expenses of the year incurred.	A sum of Rs.6,460,096 which was shown in the work-in-progress account related to the programs executed by provincial councils was included the aggregated amount of Rs.3,771,807 related to the tourism information facility centre project at Madurankuliya and the amount of Rs.2,724,389 related to the Dunhida	As Authority does not receive the ownership, it should be recognised as expenses of the year incurred.

Ella project.
Hence the works has not yet been completed related to the tourism information facility centre project at Madurankuliya, that money has been included in the work-in-progress account further. A sum of Rs.1,497,627 and Rs.1,266,662 had been given under Phase I for the Dunhida infrastructure development project. Authority has informed to relevant local authority that the remaining money would be given by the Uva Provincial Council. However, any detail has not been submitted to the finance division of the Authority up to now related to the works completed under Phase I. After receiving relevant confirmations for the completion of the project, actions will be taken to transfer that money immediately.

(b) Although, the relevant interest income for the fixed deposits was amounted to Rs.49,052,295, it had been accounted as Rs.50,863,870 overstating that income by Rs.1,811,574 in the financial statements.

It is kindly informed that this calculation was based on the information provided by the Bank.

Interest income from fixed deposits should be accurately calculated.

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| <p>(c) Although, an amount of Rs.36,919,352 should be provided as per the policy of the provision for doubtful debts as at the closing date of the year under review, refundable deposit of Rs.9,550,715 furnished by lessees of the Authority had been deducted from the value of that doubtful debts provision. Due to that, loss for the year under review had been understated by Rs.9,550,715 in the financial statements.</p> | <p>As the financial risk of the receivable value from the lessees can be recovered from the deposited money to some extent, it had been done so.</p> | <p>Provision for doubtful debts for debtors should be made in accordance with the accounting policy.</p> |
| <p>(d) Actions had not been taken to capitalize a sum of Rs.39,171,324 incurred to acquire lands in Dedduwa area as assets and to account a sum of Rs.2,141,427 earned by the Divisional Secretary by banking the advance money as interest income receivable.</p> | <p>The value confirmed by the Planning and Development Division (as at 31/12/2021) has been accounted by the Finance Division. However, actions will be taken to rectify the relevant corrections during the accounting year 2022.</p> | <p>Actions should be taken to capitalize the expenditures made for the acquisition and to account the interest earned as income.</p> |
| <p>(e)The total assets of Rs.23,562,524 related to the Kalpitiya Development Project and the total liabilities equivalent to the same value were included in a separate column of the statement of financial position giving a misinterpretation for the users of the financial statements in such a way that the project was a subsidiary of the authority.</p> | <p>This was not actually a subsidiary of the Tourism Development Authority and based on an accounting error made on the Kalpitiya project, there is a separate set of ledger accounts for the Kalpitiya project. In the future, steps will be taken to identify these transactions and close the ledger.</p> | <p>The financial statements should be presented in such a way as to give a fair impression for its users.</p> |

(f) Due to accounting the depreciation related to the development cost of Rs. 52,468,596 incurred in the years 2007, 2008, 2009 and 2011 understating by Rs.9,816,949 and accounting the depreciation related to the development cost of Rs. 26,422,927 incurred in the year 2010 overstating by Rs. 6,889,068, the total cumulative brought forward revenue account had been understated by Rs.2,927,881.

We agree to fully analyse the accounting reports and make the relevant corrections.

Depreciation in relation to development costs should be accurately accounted.

1.5.3 Unreconciled Accounts

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference	Management Comment	Recommendation
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(a)Accounts Receivables	124,913,508	80,305,873	44,607,635		
(i) Sri Lanka Tourism Promotion Bureau				On 23.03.2022, the Authority has sent a letter to the Tourism Promotion Bureau containing the balance receivable and payable, of which Rs. 96,050,479 is the building rental income that has not been received so far. A reply letter confirming the balance related to this letter has not been received so	Actions should be taken to reconcile the balances.

				far. Rs.13,162,548 has been received in the year 2022 from the balance of other receivables.	
(ii) Sri Lanka Institute of Tourism and Hotel Managem ent	9,746,425	0	9,746,425	The Authority has sent a letter to the Institute of Tourism and Hotel Management on 23.03.2022 to confirm the balance and a reply letter has not been received.	Actions should be taken to reconcile the balances.
(iii) Sri Lanka Conventi on Bureau	103,260	197,048	93,788	The Authority has sent a letter to the Sri Lanka Convention Bureau on 23.03.2022 to confirm the balance and a reply letter has not been received.	Actions should be taken to reconcile the balances.
(iv) Tourism Develop ment Fund	2,803,815	4,732,903	1,929,088	According to our accounts, the balances due from the development fund are audit fees, stamp duty, administration fees and value of dishonoured cheques. If there is any difference in the fund accounts after reconciliation,	Actions should be taken to reconcile the balances.

actions will be taken to correct this year.

(b) Accounts Payable

(i) Sri Lanka Institute of Tourism and Hotel Management	6,512,810	5,774,778	738,032	The Authority has sent a letter to the Institute of Tourism and Hotel Management on 23.03.2022 to confirm the balance and a reply letter has not been received.	Actions should be taken to reconcile the balances.
(ii) Sri Lanka Convention Bureau	0	31,997,283	31,997,283	As mentioned in the discussion with you, the amount of Rs. 31,997,283 mentioned as the amount to be paid to the Sri Lanka Convention Bureau belongs to the Tourism Development Fund and it has also been included in the final accounts of the fund for the year 2021.	Actions should be taken to reconcile the balances.
(iii) Tourism Development Fund	703,607	470,844	232,763	The amount of Rs. 703,607 that should have been paid to the Tourism Development Fund was a value that the cashier had mistakenly deposited an	Actions should be taken to reconcile the balances.

aggregated daily amount related to the Development Fund into the Authority's account. It was paid to the Tourism Development Fund on 08.02.2022 through cheque number 256729.

(c)Trade Debtors	245,994,317	281,681,787	35,687,470	This difference is created in the calculation of the total of the receivables sub-ledger related to the year 2021. Actions are taken to correct the sub-ledger by comparing it with the ledger accounts. (No impact has been made in the adjustments of bad debts as less than 01 year).	Actions should be taken to reconcile the balances.
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1.5.4 Documentary Evidences not made available for Audit

Item Available	Amount	Evidence not	Management Comment	Recommendation
	Rs.	Furnished		
	(Million)			
(a) Capital Reserve	(243.7)	Detail Schedules	To obtain the approval for write off, these balances have been forwarded to the General Treasury.	Detail schedules should be furnished.

(b)Investment	54.6	Investment Certificates	To obtain the approval for write off, these balances have been forwarded to the General Treasury.	Source documents should be submitted.
(c) Kalpitiya Equity	98.8	Registers of shareholders and details of bank deposits	List of shareholders is attached. Please note that we can provide soft copies of cash book (ledger) containing transactions for bank deposit details.	Source documents should be submitted.
(c) Development Cost	215.2	Source documents and detail schedules	Transactions in the accounts are analysed and actions are taken to initiate project files.	Source documents should be furnished.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
(a) As at 31 December 2021, the value of trade debtors was Rs.245,994,317 and balance confirmations had not been received from any of the debtors as at 05 September 2022. According to the age analysis of trade debtors presented on that date, the debtor balance outstanding from 3 to 4 years aggregated to Rs. 29,861,932 and the debtor balance outstanding for more than 4 years was aggregated to Rs.53,214,835. Accordingly, the aggregate value of outstanding debtor balances over 3 years was Rs.83,076,767. However,	Since the probability of receiving money for debtor balances older than 03 years is minimal, the accuracy of these balances can be confirmed.	Actions should be taken to recover the outstanding debts.

due to the contradictions in the age analysis presented by the Authority, it was not possible to satisfy about the accuracy of these values.

- (b) In the balance of deposits receivable of Rs.9,439,982, the amount of Rs.3,281,823 deposited for office rent abroad from 1989 to 2007 had not been settled till the closing date of the year under review.
- These figures, which do not have written evidence, have been referred to the Board of Directors for their decision to write them off from the ledger.
- Actions should be taken to write off from the accounts with the approval from the Ministry of Finance.
- (c) Aggregate values of arrears in rental income due from 37 guest houses as at the closing date of the year under review was Rs. 26,364,027 and out of which the arrears rental income over 4 years was Rs.10,622,282. Out of these 37 guest houses, the lessee of the Galgamuwa guest house, which was leased for 10 years in 2009, had transferred it to another person. In the year 2021, the Authority had filed a case and out of the above arrears, the arrears to be collected from the lessee were Rs. 2,670,873. However, the rental income receivable between the resort division and the account division had a difference of Rs.1,172,098 as at 31 December 2021.
- Out of the 37 guest houses, only 28 guest houses have lease agreements in place and the construction of Mahianganaya and Nikaveratiya guest houses has not been completed. Legal actions will be taken to recover the money due from the former tenants of the guest houses which are not currently operating.
- The lease agreements of Galgamuwa guest house ended on 08.04.2019 and as on April 2019, a deficit amount of Rs.2,660,150 was reported according to the account information of the management department.
- Although letters of demand were sent several times before filing a lawsuit to collect arrears, no proper response has been received from the lessees. Although, the possession of the guest house has been taken back to the Authority in March 2022, the proceedings have not yet been finished.
- Arrangements should be made to recover arrears of rental income promptly and that the balance of rental income and income receivable between the Resort Division and the Accounts Division should be reconciled.

- (d) The balance of miscellaneous debtors as at the closing date of the year under review was Rs.6,081,715. The balance value of miscellaneous debtors older than 4 years was Rs. 5,832,396, which was a percentage of 96 percent. Further, there was an unsettled opening balance of Rs.559,961 in miscellaneous debtors.
- The account information about these balances will be analysed and necessary actions will be taken. Actions will be taken subject to the relevant approval to write off the opening balance of which written evidences were not available.
- The outstanding debtor balances should be written off with the relevant approvals and that the balances should be reconciled.
- (e) According to a request made by the Ministry of Tourism to start a training program for three-wheeler drivers to provide transportation facilities to foreign tourists, the Ministry had agreed to reimburse the financial contribution for the "Tuk Tuk Program" started by the Tourism Development Authority. However, an amount of Rs.13,227,648 incurred in the years 2018 and 2019 had not been recovered even as at the closing date of the year under review.
- A final decision regarding this will be taken in this financial year after a discussion with the Ministry.
- The relevant financial contribution should be reimbursed from the Ministry.
- (f) The Secretary of the Ministry of Tourism had participated in the annual meeting of the United Nations World Tourism Organization held in Spain from 30 November to 03 December 2021 and the cost incurred by the Authority amounting to Rs. 1,398,426 had not been reimbursed by the Ministry even as at 05 September 2022.
- On 9 November 2021, the United Nations World Tourism Organization invited the Secretary of the Ministry of Tourism and the Director General of the Tourism Development Authority in writing to participate in the organization's annual meeting. Accordingly, we did the necessary work subject to the approval of the Board of Directors and the approval of the President's Secretary. The authority has borne the cost similar to events as such in the past and the ministry will
- Actions should be taken to recover the financial contribution made on behalf of the Secretary of the Ministry of Tourism from the Ministry.

be informed in the future to cover the expenses for such visits from the ministry's expenditure codes.

1.6.2 Accounts Payable

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) Out of the balance of deposits and other payables of Rs.153,739,503 as at the closing date of the year under review, the unidentified and un-presented cheques value was amounted to Rs.4,275,041.	Un-presented cheque account balance as at 31/12/2021 will not match with the balance presented by you. Therefore, we request you to provide information about how you obtained the balance.	An analysis should be done on the balances included in the deposit and other payables account.
(b) Customers involved with the prepayments made of Rs. 24,620,808 which was included in the deposits and other payable balances amounting to Rs. 153,739,503 could not be identified even as at the closing date of the year under review. Further, age analysis was also not presented for the said balance.	Age analysis related to this value is presented and until the Authority receives information from the depositors, it has been difficult to prepare a list of customers.	Arrangements should be made to identify customers included in deposits and other payable balances.
(c) Although, an aggregated amount of Rs. 2,180,326 related to 4 places shown as UNICEF organization, holiday resort current account, Kuchchaveli and Pasikudha had been shown as payables from the year 2010 to the year 2013, actions had not been taken to identify	Actions will be taken to remove this balance from the ledger (subject to relevant approvals) for which there is no written evidence.	Actions should be taken to remove from the ledger with formal approvals.

those accounts and to settle even as at the closing date of the year under review.

1.6.3 Advances

Audit Observation	Comments of the Management	Recommendation
A foreign advance of Rs. 333,694 outstanding for 11 years was not settled till the end of the year under review	Necessary actions are taken to write off these balances for which there is no written evidence from the ledger.	Actions should be taken to remove it from the ledger with formal approvals.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance Rs.	Comments of the Management	Recommendation
(a) The Tourism Act No. 38 of 2005			
(i) Section 6.1 (a) and (b) of the Act	Proposed long term targets and four year plan for tourism development had not been prepared and furnished to the Minister.	From 2020, the Ministry started preparing a national policy for the tourism industry. According to the Secretary's advice to prepare organizational plans, we were in organizational preparation. The formulation of the proposed policy is in the final stage and we are working with the Ministry to prepare the plan and accordingly, the long term plan and targets will be furnished to the Minister.	Long term targets and four year plan for tourism development should be prepared.
(ii) Section 26(3) of the Act.	Although, actions had been initiated for the preparation of master plans related to the tourism zones identified, regulations	Plans related to this issue started from 2018. From that year, the master plan preparation was commenced in collaboration with the	Regulations should be made in accordance with the directions of the Act.

had not been made regarding the tourism activities, commercial and other activities that can be carried out within those zones declared even as at the closing date of the year under review.

Urban Development Authority (UDA) and it was planned under several phases. Among them, Ella tourist area has already been gazetted and tourism plans are to be made and gazetted in Arugambe and Nuwara Eliya tourism zones at the end of this year (2022).

Kalpitiya and Hikkaduwa tourism zones are currently undergoing tourism planning and other identified tourism zones are being considered under the second phase.

(iii)Section 48(4) of the Act.

Although the enforcement unit of the authority proposed to take legal actions against 504 of the unregistered entities identified in the period from August 2018 to July 2022, actions had not been done so even as at the audit date of 05 September 2022.

On the agreement of the Secretary of the Ministry of Tourism and the top management of the institution, the prosecutions have been temporarily stopped to protect this industry without allowing them to crash when the service providers need support.

As an organization that is maintained by the levy paid by those clients to the government, it will take some time to recover from the Easter attack, the corona pandemic situation, and the economic crisis faced by the clients engaged in the tourism industry and until then it will be our responsibility to protect them and the industry.

As the enforcement unit of the Authority conducted investigations on unregistered entities from 2018 to 2022 with the view of taking legal actions, such actions should be taken simultaneously.

(b) Public Enterprises Circular No. PED

Although, the Authority has recorded a loss in the

Further actions will be taken based on the

Adherence to the Public Enterprises

03/2018 of 07 financial year 2021, the recommendation after Circular should be
 December 2018 and employees of an discussion with the required regarding
 Public Enterprises organization that has management of the the payment of
 Circular No. PED reduced the loss institution. bonus.
 03/2021 of 15 compared to the year
 December 2021. 2020 can only be paid a
 bonus of Rs.5,000.
 However, each employee
 had been paid an amount
 of Rs. 13,500 during
 the year under review and
 the amount paid as bonus
 was aggregated to Rs.
 2,565,148.

- (c)Public Enterprises (i) According to the A strategic plan was According to the
 Circular No.01/2021 of (i) circular, strategic prepared and published by circular, strategic
 16 November 2021. plans should be the Authority for the plans should be
 prepared in relation period 2017 – 2020. prepared in relation
 to 5 years. However, While this plan was being to 5 years.
 the Authority had not implemented, the Easter
 prepared such a plan Day terrorist attack in
 prior to the 2019 and the Covid 19
 commencement of situation that took place
 the year under with effect from 2020
 review and in caused many challenges to
 January 2022, a the implementation of this
 strategic plan had plan. A strategic plan has
 been prepared for the been prepared for the
 period of 2020-2022 period 2022-2025 with the
 covering the past 2 new beginnings that the
 years. industry has come up with
 since 2022.
- (ii) Although the (ii) The Board of Directors Adherence to the
 accounts should be had approved the financial provisions of the
 furnished to the statements for the circular is required.
 Auditor General financial year 2021 on 28
 within 60 days of the February 2022, subject to
 end of the financial the approval of the Audit
 year, the accounts and Management
 were submitted on 02 Committee. The first
 September 2022 with Audit and Management
 a delay of 186 days. Committee meeting of the
 year 2022 was held on 17
 of August 2022. It is
 kindly informed that the
 recommendation of the

said meeting was submitted to the Board on 30 of August 2022 for the information and the previous approval has been reconfirmed.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.101,319,843 and the corresponding deficit for the preceding year was Rs.118,817,905. Accordingly, an improvement of Rs.17,498,062 was observed in the operating results. The increase in tourism development levy by Rs.37,268,590 and increase in other income by Rs.40,718,097 during the year under review were the main reasons for this improvement.

3. Operational review

3.1 Management Inefficiencies

Audit Observation

Comments of the Management

Recommendation

(a)	Dunhinda Ella Project was started in February 2017 with the aim of constructing 20 eco-friendly stalls, 02 benches per stall, safety fence and a name board at a value of Rs.7,488,133 and was expected to be completed by 15 of December 2017, as at 22 January 2018, only 10 shop rooms and name board had been constructed at an aggregated cost of Rs.2,864,289 and the work was stopped. Nevertheless, Authority had decided to construct 5 more shops in the year 2021 under Dunhindha Project- Phase II at a cost of Rs.2,350,000, the construction of 5 rooms in the original plan had been	In the first phase, 5 shop rooms were constructed by Soranatota Pradeshiya Sabha. It was informed that the local council does not have the money to build the remaining part. According to the decision obtained from the Board of Directors on 02/12/2021, the Uva Provincial Tourism Bureau was informed to construct 05 eco-friendly shops in the second phase. The bureau was informed that it was difficult to select contractors due to the corona pandemic at that time, the imposition of travel restrictions, the isolation of provinces and the increase in prices.	Since Ella is an area with more tourist attractions, it is the authority's responsibility to develop the infrastructure and that the work should be completed as planned.
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abandoned. Further, due to delay of 4 years, cost per room had been increased up to Rs.470,000 of which cost per room then was Rs.272,429. It was an increase of 72 per cent.

Furthermore, as per the decision taken to isolate the provinces from time to time, the provincial council delayed the procurement and was informed that the allocated money was not sufficient for it.

- (b) For the bills submitted as at 27 October 2016 for the construction of a tourist information and facility centre (comfort centre) at Madurankuliya in Puttalam district, the authority has paid Rs. 6,771,807 to the North Western Provincial Council. However, Rs. 5,846,556 of bills submitted as at 22 December 2016 for the remaining work indicating that the engineering certifications were faulty, the authority had not released the money even as at the closing date of the year under review. Due to this, the project was stopped midway and remained inactive. It was revealed by physical audit verification that the poor maintenance carried out until now had led to water leakage and rotting of the constructions.

The Provincial Council was received financial allocations to bring forward the Madurankuliya Information Centre in the critical area of the Colombo Puttalam road.

Tourism Development Authority, Ministry of Tourism and North Western Provincial Council spent money for the construction. All procurement activities were held by the North Western Development Authority. The total amount paid by the Tourism Development Authority was about Rs.6.8 million. There was an audit inquiry about the project and the answers given by the North Western Provincial Council are attached. Furthermore, the provincial council has taken engineering advice for the water leak and has taken measures to remedy it. It has been informed that the procurement process has been completed and a suitable investor has been selected to run the public affairs of this place.

Since this is the only comfort centre in the Kalpitiya Tourism Development Area, the authority should make an active contribution to the success of the project.

- (c) A contract worth of Rs.12,775,030 had been awarded to construct a sanitary facilities in Aluthnuwara Dadimunda Dewala Site in the

According to the approval of the board of directors, the contract amount for the construction of the Aluthnuwara Dadimunda

Efforts should be made to implement the project as planned.

year 2018 and the authority had paid Rs.10,799,405 by July 2020 to Sabaragamuwa Provincial Council. However, without obtaining the prior approval of the Board of Directors, out of which Rs.7,216,214 had been paid for additional work and according to the quantity sheets, the value of agreed but unfinished work was Rs. 8,552,268.

Dewala Site was Rs.12,775,030. The Sambaragamuwa Provincial Council had sent a detailed answer to the audit query regarding the sanitary facilities built on the Dewala site. The amount paid so far is Rs.12,205,711.16. Approval of the Board of Directors was obtained on 23.06.2022 covering the entire payment up to the final payment. At present, the Provincial Council has completed the work at the relevant place and opened it for public use.

- (d) The number of places registered with the authority last year as accommodation and tourism facilities was 5378 and the number was 5872 during the year under review. Accordingly, the number of newly registered places was 494. However, the number of places that renewed their registration was only 783 during the year under review, when 783 places was subtracted from the 5378 places that were registered in the previous year, it seems that 4595 places have not renewed their registration. Accordingly, it is appeared that the regulation of individuals or organizations engaged in tourism activities was at a very low level.
- The total number of establishments providing accommodation facilities is 552 during the year under review, and the number of establishments providing service facilities is 194. Accordingly, 726 institutions have been newly registered in the year 2021, and the total number of institutions registered as at 31.12.2021 is 5872. Further, 1454 institutions had renewed their licenses in 2021.
- The number of registered establishments is the number of establishments registered since the date the Tourism Board started issuing licenses. If the operations of those institutions are stopped, closed, transferred or the owners die for any reason, the registration will not be
- The regulation of the places providing accommodation and tourism facilities should be efficient as per the provisions of the Act.

cancelled unless it is formally notified to the authority or discovered during a field investigation. Reminder letters of 2996 were sent for license renewal. Temporary registration is done for 6 months and no license is issued.

Based on the situation faced by the industry in the past, they were given a grace period for the renewal of registration in 2020 and 2021 and were given the opportunity to continue operations and obtain the excise license even though the registration was not renewed until then.

- (e) According to the investigations carried out by the enforcement unit from August 2018 to July 2022, 640 unregistered entities operating as tourism enterprises or tourism services were identified. However, out of them, only 20 entities were registered even as at 03 July 2022. Accordingly, it was observed that the regulations conducted by the enforcement unit for the institutes that carried out business in the tourism sector informally were at a very low level. The management has not made a sufficient evaluation of the performance of this unit and totalling of Rs.13,397,500 had been paid only as allowances for the consultant, investigating officer and legal advisor of that unit from August 2018 to July
- The enforcement unit started operations with two investigation officers at the beginning of 2018, and later, the investigation work in the entire country was limited to one officer. Accordingly, during the period of 2018-2022, investigations have been carried out covering 640 units. Accordingly, more than 15% of institutions have already been registered and the registration of another 32 institutions is in progress. Absence of a legal document to prove the ownership of the institution, absence of a building plan approved by an authorized institution, lack of financial
- Since the Enforcement Unit was in operation from August 2018 to July 2022, regulatory activities should also be in operation concurrently with it.

2022.

ability to obtain the fire safety certificate and practical difficulties to provide the necessary training, inability to get environmental protection permits quickly and taking some time to carry out relevant field tests due to the current situation and the inability to pay for it were some of the reasons for the inability to register. The negative response of service providers in general to pay levies to the government has also an impact on that.

- (f) In two cases filed by two officials against the Authority for violation of their fundamental rights, without consulting the Attorney General in accordance with Sections 5.1 and 5.2 of Chapter XXXIII of the Establishment Code, actions had been taken to get the services of private lawyers. Accordingly, a sum of Rs. 2,828,803 had been paid for the private lawyers related to the above two cases as at the closing date of the year under review. However, according to the directions No. COPE/09/1/2020 of 10 December 2021 given by the Committee on Public Enterprises, the authority was informed not to seek the assistance of private lawyers by spending a huge sum of money for the cases assigned by the employees.

The services of private lawyers have been obtained for both these cases after obtaining the approval of the Board of Directors. It was observed during the examination of the related files that the private lawyers' Assistance has been taken by the Authority since the year 2005. Several letters have been sent to seek the advice of the Attorney General in this regard and it has not been possible to get proper instructions before the scheduled trial date.

Following the recommendation of the COPE Committee, the Tourism Development Authority has not obtained the services of private lawyers for any new litigation and has forwarded a letter to the Board of Directors to seek the assistance of the Attorney

The human resources management should be carried out in an effective manner and attention should be paid to the increase in legal expenses of the organization through the services of private lawyers.

General's Department instead of the private lawyers who are currently getting services for the aforementioned litigations. It is expected to act accordingly as soon as the Board of Directors' decisions are received.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) The Authority had entered into an agreement with a private company on 18 June 2011, to establish a sewage and waste water purification system for the hotels and related institutions within the Pasikuda National Resort premises and to keep the maintenance of the system, collect fees from 14 hotels located in the premises and to pay the amount so recovered to the above private company were the responsibility of the authority. The authority had given the land of 118 perches required for the project. However, the amount due from 14 hotels was Rs.299,461,325 from the year 2013 to the closing date of the year under review, and proper measures were not taken to recover those money. Although, an offer letter was issued to a joint venture in the private sector to get financial advice about the affordability to take over the system to the Authority at a cost of Rs.1,644,750 on 20 April 2021, a final conclusion regarding it had not been taken even by 05 September 2022.</p>	<p>An offer letter was issued on 20 April 2021 to a private organization to obtain financial advice and the agreement was signed on 10 May 2021. However, due to the Covid-19 pandemic in the country, the field visits were delayed. For the first time, a field inspection was conducted together with the officers of the consultancy from 04.07.2021 to 06.</p> <p>It is informed that the consulting firm submitted draft reports periodically from 20 August 2021 and relevant communication activities were implemented from that date.</p> <p>Invoices are sent every month to collect the amount of Rs.299,461,325 due from the year 2013. However, they continued with payment defaults. In the discussion held at the Ministry of Tourism on 19 January 2022, the representatives of the hoteliers' association stated that due to the current economic crisis and the reduction in the number of tourists due to the ongoing Covid-19 pandemic in the country, it is not possible to pay these arrears at this time and the amount is relatively high.</p>	<p>Since no arrangements have been made to collect arrears since 7 years before the outbreak of the Covid pandemic situation, close attention should be paid to it.</p>

- (b) The total loss of the 04 National Holiday Resorts owned by the Authority for the year under review was Rs.50,740,838 and the total loss of the previous year was Rs.46,015,590. Accordingly, there was a 10 percent increase in the total loss of the four resorts in the year under review compared to the previous year, and sufficient attention had not been paid to it.
- The resorts owned by the Authority have been maintained from the beginning with the aim of providing a friendly service to local tourists without the objective of making a profit and the prices are slightly more than covering the expenses. Due to this, there has been no increase in prices since 2016.
- Sufficient attention should be paid by the management to maintain services without incurring losses.
- (c) 35 acres were leased to 5 companies in Yala tourism development zone in 2014 and another 16.8 acres were leased to 2 companies in 2019 and 2020. However, only 2 companies out of 7 leased companies were engaged in operational activities at the end of the year under review. Although, the Authority was informed by a leased company in 2014 about an interim injunction order issued by the High Court preventing from carrying out operations and the rent in arrears had been paid, the Authority terminated the lease agreement in May 2020 citing "non-commencement of operations". The lessee filed a case in the Colombo District Court against the termination of the lease agreement and obtained an injunction against the authority. However, arrangements had been made by the Authority on 22 October 2020, to lease this land to another company. The original lessee then had filed a case against it and without taking Attorney General's advice regarding all these cases, the
- According to the tourism development master plan prepared and completed in the Yala tourism zone, it was possible to give 07 plots of land in 7 acres to the investors. Out of them, the operations of two companies are in progress. Another institution is currently in its final stages of operation. Two more companies are in the construction phase. Since the land given to the company in question was not dealt with according to the agreement, on 14 August 2019 (19/2097/106/032), the agreement was cancelled and given to another company. The problematic situation have been arisen and moved towards a legal situation. At the time, these facts were questioned; this company has arranged to pay the outstanding rent amount to the Authority. Based on the fact that the relevant departments are not properly informed about it, the basis for maintaining this case has been prepared.
- Due attention should be paid to delays in the commencement of operations by the lessees and attention should be paid to the increase in legal expenses of the entity by obtaining the services of private lawyers without consulting the Attorney General.

services of private lawyers had been taken and had been paid Rs.1,544,168 as legal fees in the year 2021.

- (d) The drawbacks such as very poorly maintained roof, kitchen, lobby area and dining area of the old building, non- functioning air conditioners, broken bathroom fittings, usable and unusable material being piled up as a hindrance to the decor of the resort had been observed during a physical inspection carried out at the National Holiday Resort in Anuradhapura owned by the Authority.
- The old building has already been de-roofed and the removed usable parts of the said building have been piled in the same premises. It is informed that the main hall, the lobby area and the dining hall were set aside for renovation and the dining hall is already undergoing renovation. Further, it is informed that a large amount of waste material that was piled up has already been auctioned and removed from the resort area.
- The maintenance of the National Holiday Resort should be continuously carried out.
- In the new building, air conditioners and bathroom fixtures were found to be defective and retention money payments to the contractor were suspended until they were repaired.

3.3 Idle or Under Utilized Property, Plant and Equipment

Following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Only 35 acres of land out of the 510.086 acres of land taken over by the authority for Kuchchaveli in 2011 and 2014 for tourism development projects had been leased to 2 companies by the year 2020 and 14 acres had been leased to another company in May 2021. However, as at 05 of September 2022, only one out of the 3 leased companies was in operation.	The Cabinet gave approval to lease the Kuchchaveli lands for 99 years on 12 July 1995. Conditions were imposed there that it should be done subject to a levy. Due to the fact that this was higher than the average levy amount, less number of investors came forward for investment activities. Two investors offered under those conditions. Due to the decrease in the tendency of investors to come forward for	Due consideration should be given to delays in commencement of operations by lessees.

99 year lease agreement and the lease amount is above average, the Secretary of the Ministry of Tourism in 2019 advised the Tourism Development Authority to extend the lease period to 30 years according to the presidential circular obtained in 2010.

Further, as the projects that are to be carried out on the land currently given to investors have been challenged by the current economic crisis in the country, it is expected that those projects will be successfully directed to the desired goals from the year 2023.

- (b) The Authority received 2057.90 acres of land in 12 islands of Kalpitiya in 2010 and 2012, as free grants for tourism activities. Out of those 12 islands, only 206.74 acres of land belonging to 05 islands had been leased for 03 companies during the years of 2010, 2011 and 2020. However, none of those companies had commenced operations by the end of the year under review. Out of the leased companies, 2 companies had rent arrears of Rs.43,275,455 and Rs.9,063,277 respectively for 3 to 5 years.
- From the Kalpitiya lands, the Ippantiv and Vellai archipelagos were acquired under leases by two companies. As of 2019, only two companies offered for investment. The reasons for that were those that existed at that time. Inadequate infrastructure and not being able to get approval for the water bungalows planned by one company and the problematic situations in the community related to the project planned by the other company. Investors were found for 6 of the remaining 8 islands due to tourism promotion activities carried out during the Easter attack period and during the Covid period.
- That due attention should be given to effective utilization of land and delays in commencement of operations by lessees.

Efforts are being made to find investors for the remaining two islands.

One company has cleared all arrears up to 31 December 2021 by March 2022. 1,355,740 million is still outstanding as no payment has been made since then. Also by the other company

An outstanding amount of 47,903,179.42 is being maintained till now and since this investor does not show any desire to continue the project further, it will be discussed and a decision will be taken in the future.

- (c) Out of the 37 guest houses owned by the authority, 9 guest houses were not leased out for a period ranging from two to eight years, so the property remained underutilized. Tenders were invited for Anamaduwa, Weerakatiya, Nalanda, Ragala and Battaluoya guest houses and suitable investors have not come forward to lease those guest houses. Due attention should be paid for the effective utilization of the property.
- (d) Although, a sum of Rs. 173,159,909 had been paid and land acquisition for tourism development project in Dedduwa had been completed as per Galle District Secretary's letter No.DPS/LND/03/BAN/General and dated 20 June 2017, tourism development projects had not been commenced there even by 05 September 2022. Dedduwa Tourism Development Zone was acquired by Bentota District Secretary on 10 February 2004 with the approval of the Regional Secretary by paying compensation to the Tourism Development Authority. At present, construction of boundary fences is being done in this region by marking the boundaries. An investor offered to undertake tourism projects. Nevertheless, the Tourism Development Authority stipulated that the investor should make an investment. Proper attention of the management should be given regarding the effective utilization of the property.

of US\$ 500 million in a local financial institution after the approval of the investment project, the investor did not make the payment within the given period and it was decided to cancel the investment project after discussions with officials of the Ministry of Tourism and the officials of the Prime Minister's Secretariat.

In the year 2020/2021, due to the fact that this land was given to the army to check whether it was suitable for cultivation, the development of the Dedduwa tourism zone was also hampered to some extent in these years. Preparations are also being made to prepare a master plan for this tourist area in the future.

3.4 Transactions in Contentious in Nature

Audit Observation	Comments of the Management	Recommendation
<p>A group medical insurance (Group Policy) for the Authority, Promotion Bureau, Hotel School and Convention Bureau was obtained in the year 2021, from the Sri Lanka Insurance Company which was selected through limited competitive bidding, and for that, an amount of Rs.50,469,628 had been paid to the insurance company by the four institutions. Later, the Chairperson and Director General of the Authority named a brokerage company and informed the insurance company to pay the commission</p>	<p>The Sri Lanka Tourism Development Authority followed the prescribed procurement process for the relevant year and selected an insurance service provider under the direct method. Former Minister of Tourism informed the Authority's management that the insurance company was paying a certain amount of commission to an insurance agent without</p>	<p>Transactions should be made transparently.</p>

related to the above transaction to that company and to use the money for a social welfare program in Kuwait. No any employee who were benefited during the year under review was received a service of a brokerage company and this money was not used for any social welfare program. However, the insurance company had paid a commission of Rs.4,798,290 to the brokerage company in the months of April and May 2021. Accordingly, requesting for commission for an insurance transaction occurred directly was a suspicious transaction in the audit.

the Authority's knowledge. Subsequently, as per the minister's instructions, a request was made to the Chairman of the relevant insurance company for an operation to bring back a group of Sri Lankan foreign women workers who were stranded in Kuwait, and the said insurance company told the minister that the transfer of the related funds can only be done through an agency. Accordingly, the minister had named a brokerage firm. Then Chairperson and Director General have only made a written request to transfer the amount to the brokerage company nominated by the former Minister to be used for a noble social cause as per the instructions of the Minister.

Apart from that, the Authority is not aware of any other information or details regarding the commission amount mentioned in the relevant observation and since these discussions have taken place between the former minister and the chairman of the insurance company, we emphasize that the authority does not know any further information about it.

3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Although the office aid assistant attached to the Chairperson's office had requested toners amounting to Rs.1,072,102 from the Sri Lanka Institute of Tourism and Hotel Management through goods requisition notes signed by the Chairperson on several occasions in the year 2020, they were not received to the authority's stores. Although the Director General of the Hotel Management Institute had informed the Chairperson and Director General of the Authority through an e-mail message about the said goods request, no investigation had been conducted on it even as at 05 September 2022. In spite of that, on 05 August 2021, the said office assistant and the office assistant attached to the Director General's office had stolen photocopies and toners worth Rs.1,234,540 from the stores and even though their services were suspended, the laptop computer valued at Rs.198,500 and purchased newly had been misplaced in the resort management department on 24 August 2022. Accordingly, it is observed that due to the lack of active intervention of the management regarding the initial complaints and the weakness of the internal control systems, an environment in which frauds continue to occur has been created in the</p>	<p>Since the toner or other stationery items obtained from the Sri Lanka Institute of Tourism and Hotel Management for the duties of the Chairman's office are not assets of the Authority, there was no method of obtaining them in the authority's stores.</p> <p>A complaint was made to the Kollupitiya Police on 11 August 2021 regarding a theft committed by the office assistant attached to the Chairman's office and the office assistant attached to the Director General's office, and a case was filed in the Colombo Fort Magistrate's Court by case number 21/14/200.</p> <p>Currently, 02 sessions have been held. Furthermore, at the request of the Authority, with the intervention of the Secretary of the Ministry, the investigation officers of the Ministry of Public Administration had conducted a preliminary investigation and the report with relevant recommendations was given to the Authority in August 2022.</p> <p>The report is to be submitted to the board of directors of the Authority in the future, and charge sheets will be issued to the</p>	<p>The internal control systems of the institution should be strengthened.</p>

authority.

two accused employees after conducting a formal disciplinary investigation. It is pointed out that general legal and disciplinary action has been taken promptly by the competent management in respect of the said incidents and therefore cannot agree with the observation that "the management did not actively intervene in the initial complaints".

- (b) Although, the contractors were informed that during the bidding for the repair of the water supply system of the Bentota Holiday Resort that they must have the qualifications to be met by the ICTAD, the supplier for the Rs.65,510,000 contract was awarded for the supplier even though he was unqualified.
- Regarding the said procurement, three procurement notices were published on 13.08.2020, 10.12.2020 and 24.03.2021. In the first calling for bids, two bids were received and their bids were rejected during the technical evaluation. In the second round of bidding, only one bid was received and that bid was also rejected. Accordingly, the technical evaluation committee again based on the recommendations of the report dated 12.01.2021 sent by the Central Engineering Consultative Bureau (CECB) regarding engineering matters; it was recommended to invite bids in the second round of bid evaluation. There, the consulting firm had changed the eligibility criteria and given the bid documents for the third procurement on 02.03.2021. Accordingly, in addition to the previous
- The criteria notified at the time of invitation of bids should be adhered to.

criteria, another criterion was included as follows.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>As per the action plan of the year under review, there were 155 activities without any financial progress out of 218 sub-activities included in 40 projects within the capital expenditure. As a percentage it was 71 percent. It was not possible to analyse the physical progress of the action plan as an actual performance report was not submitted for audit.</p>	<p>Due to the Covid situation in the country in the year 2021, most of the activities planned for the year could not be brought forwarded. Most of the planned activities for the year 2021 were included in the 2022 year plan as there was no situation to carry out those actively for the future. Though, the financial progress is shown to be low, the performance is higher than the financial progress and the main reasons for that may be the non-existence of financial expenditure for some sub-activities. However, under the prevailing Covid situation in the country, restrictions for the employees to come to the workplace and restrictions on internal travels, Action Plan turned out to be a year of relatively low physical as well as financial progress in the year 2021.</p>	<p>The annual action plan should be used as an effective management tool.</p>