# Sri Lanka Tourism Development Authority -2011

## 1. Financial Statements

### 1.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 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 2011 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

### 1.2 Comments on Financial Statements

#### 1.2.1 Sri Lanka Accounting Standards (SLASs)

Following observations are made

(a) In terms of the SLAS-18, 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) In terms of SLAS-19, lessor shall present assets subject to operating leases in their balance sheet according to the nature of the assets. However, lands and rest houses given under the operating lease had not been shown in the balance sheet of the Authority. The details of said lands and rest houses had not been furnished to audit. Nevertheless, according to the test check conducted by audit, 56 rest houses and 166 plots of lands to the extend about 6,495 acres were belonging to the Authority.

### 1.2.2 Accounting Policies

Following observations are made.

(a) Accounting policy for the provision for bad debts had been made as 25% to 100% for debtors remaining 2 to 4 years without considering the nature and recoverability of the receivables.

(b) Even though the development cost of the Authority had been depreciated at the rate of 25% per annum, an accounting policy had not been introduced in order to identify the development cost and their nature.

(c) Accounting policy for identification and accounting of revenue collection from rented out lands and buildings given on long term and short term basis had not been disclosed in the accounts.

### 1.2.3 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

(a) Value Added Tax (VAT) payable amounting to Rs. 1,217,690 had been accounted for as deposits payable.

(b) Capital expenditure which incurred for the Passikudah tourist resort Project amounting to Rs. 66,057,525 had been accounted for as recurrent expenditure.

### 1.2.4 Unreconciled 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 records | Balance as per the subsidiary records Rs. | Difference Rs. |
|---|---|---|---|---|
| Receivable from Sri Lanka Convention Bureau. | 2,316,084 | Accounts of the SLCB | 3,834,488 | 1,518,404 |

| | | | | |
|---|---|---|---|---|
| Furniture | 8,499,982 | Assets verification report | 3,077,269 | 5,422,713 |
| Miscellaneous assets. | 11,666,834 | -do- | 1,378,440 | 10,288,394 |
| Data processing equipment. | 40,169,884 | -do- | 2,646,750 | 37,523,134 |
| Cutlery and silver. | 13,379 | -do- | 16450 | 3071 |
| Inventories | 2,399,645 | Stock verification report | 1,839,562 | 560,083 |

1.2.5 Accounts Receivable and Payable
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Following observations are made in this regard.

(a) According to the age analysis furnished to audit, out of the trade debtors amounting to Rs.16,399,657, a sum of Rs.1,862,804 was outstanding for over 4 years and a sum of Rs. 129,649 was outstanding for over 3 years. Further, miscellaneous debtors amounting to Rs. 1,619,103 was outstanding for over 4 years.

(b) According to the information made available for audit, out of the sundry creditors amounting to Rs. 2,480,205, about 96% were not actually existed. However, action had not been taken to write off those liabilities from the accounts.

(c) Sums of Rs. 4,162,242 and Rs. 10,097,754 had been made as the provision for bad debts during the year under review and for the preceding year, without being considered nature of the receivables.

(d) Even though 28 dishonored cheques valued at Rs. 926,057 had been outstanding for a period ranging from 01 to 09 years, appropriate actions had not been taken for the recovery of the value of these cheques, in terms of Financial Regulation No. 189.

1.2.6 Lack of Evidence for Audit

Five items in the accounts aggregating Rs.113,305,976 could not be satisfactorily vouched in audit due to non-availability of evidence such as supporting documents, details of expenditure, measurement details and certificates for used materials and machines etc. In addition, deeds/acquirement warrants had not been furnished for audit relating to the lands belonging to the Authority.

1.2.7 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 etc. | Non-compliance |
| --- | --- |
| (a) Public Enterprise Guidelines for Good Governance Circular No.PED/12 of 2 June 2003: | |
| (i) Section 9.3.1 (i) of Chapter 9 | Though 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, the Authority had failed to comply with this requirement with regard to recruitment of staff to new section named One Stop Unite. |
| (ii) Section 9.12 of of Chapter 9 | Any welfare scheme adopted by an enterprise should have the approval of the General Treasury. However, the Authority had failed to obtain the approval for the Employee Medical Insurance scheme. |
| (iii) Section 9.14.1of Chapter 9 | Though 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 together with the concurrence of the Secretary to the Treasury, the Authority had failed to comply with that requirement. |
| (b) Section 4.2.1 of the National Procurement Agency Circular No. 08 dated 25 January 2006. | Although a procurement plan should be prepared covering at least three years together with a detailed plan for next year, the Authority had failed to prepare a procurement plan according to the instructions given in the circular. |
| (c) Section 4.3,5 and 6 of the Procurement Guidelines dated 25 January 2006. | Instructions given for the preparation of Bills of Quantities, certification of goods and services rendered by the authorized Officers and calling tenders pertaining to the procurements had not been followed for the construction of jetty at Kalpitiya. |
| (d) Treasury Circular No. IAI/2002/2 dated 28 November 2002 | Fixed assets register for computers, computer accessories and software owned by the Authority, had not been maintained as per requirement of the circular. |
| (e) Public Enterprises Circular No.PED/56 dated 11January 2011. | Excess cash of the public institutions as at 31 December 2011 should be credited to the Consolidated Fund, after considering the working capital requirements of ensuing 6 months. However, the Authority had not credited excess cash to the Consolidated Fund. According to the calculations made by the audit the excess cash might be around Rs. 100 million for the year under review. |

| | |
|---|---|
| (f) Management Services Circular No.33 dated 5 April 2007 | A sum of Rs. 3,780,253 had been over paid to the Kalpitiya Project staff from the year 2009 to end of the year under review, considering the Project staff allowed to obtain salaries specified for the foreign funded projects exceeding USD 30 million. |
| (g) Financial Regulations: | |
| (ii) FR 702 (3) | Copies of the contact agreements singed by the Authority had not been furnished to the Auditor General. |
| (iii) FR371 | Advances had been paid to the officers exceeding the maximum limit of Rs. 20,000 in ten instances. |
| (h) Section 2.10 of Chapter VI of the Establishments Code. | Copies of the letters related to the recruitments, transfers, promotions, payments of salary increments and disciplinary actions against the employees had not been furnished to audit. |

1.2.8 Transaction in contentious nature
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A sum of Rs. 112,897,975 had been deposited in the year 2008 in two Divisional Secretariats in Kalpitiya and Bentota, for acquisition of lands from private parties to implement two tourism development Projects. However, the consent and approvals to make deposits had not been obtained from the respective District Secretaries.

2. Financial Review
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2.1 Financial Results
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According to the financial statements presented, the operations of the Authority for the year ended 31 December 2011 had resulted in a surplus of Rs. 132,206,537 as compared with the corresponding surplus of Rs. 72,273,514 for the preceding year, thus indicating an increase of Rs.59,933,023in the financial results. The increase of

Tourism Development and Embarkation Levy and other income by Rs. 80,946,951 was the main reason for the increase in financial results.

## 2.2 Analytical Financial Review

The revenue of the Authority for the year under review was Rs. 345 million as compared to Rs. 257 million in the preceding year representing an increase of 34%. Where as the expenditure spent for the tourism development activities during the year under review was Rs. 213 million when compared with Rs. 185 million of the previous year. Thus indicating an increase of 15%. The changes of the revenue and expenditure of the Authority during the year under review, as compared with the preceding year are shown below.

| | 2011 | 2010 | Change | |
|---|---|---|---|---|
| | Rs.(M) | Rs.(M) | Rs.(M) | % |
| Embarkation and tourism development levy | 235 | 201 | 34 | 16 |
| Other income | 110 | 56 | 54 | 96 |
| Administration expenditure | 123 | 108 | 15 | 13 |
| Trade related expenditure | 41 | 30 | 11 | 36 |
| Depreciation and other expenses | 49 | 47 | 2 | 4 |
| Net surplus | 132 | 72 | 60 | 83 |

## 2.3. Working Capital Management

| Equity Ratios | Standard Ratio | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Current ratio | 2.1 | 2.75 | 2.51 | 3.10 |
| Quick ratio | 1.1 | 2.74 | 2.49 | 3.08 |

Even though the above ratios were approximated to the standard level, there was an excess cash balance over Rs. 100 million in the bank account throughout the year under review without being utilized in long and short term investments.

## 3. Operating Review

### 3.1 Performance of the Resorts Operations

There were 07 Tourist Resorts under the supervision and management of Authority. The net accumulated surplus of the Resorts wereRs. 5,355,575for the year under review as compared with net deficit of Rs. 716,334 for the year 2010. Except five Resorts, others were operated in loss making due to the excessive overheads. As a result, overall profitability of the Resorts operations was only 6.5% when compared with the total revenue generated.

### 3.2 Management Inefficiencies

Following observations are made relating to the lands and property management of the Authority.

(a) According to the sample test conducted by the audit, it was observed that about 6,495 acres of bare lands situated in 166 places through out the country, and 56 rest houses had been acquired by the government on behalf of the Authority. However, the Authority had not introduced proper systems and procedures in order to manage these properties effectively and efficiently. As a result, the Authority had failed to achieve the basic objectives of property management such as security of the properties, accounting them in complying with Sri Lanka Accounting Standards, enhancement of economic benefits to the Authority from the lands and properties etc.

(b) 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.

### 3.3 Identified Losses

Following observations are made.

(a) Preliminary expenses of the Sustainable Tourism Development Project amounting to Rs. 2,966,212, which incurred by the Authority on reimbursable basis, had been written off as a loss during the year under review, due to non-reimbursement of expenses, considering the unallowable expenses, by the International Development Agency.

(b) Receivable rent income amounting to Rs. 1,736,216 had been written off without being recovered from the respective lessees.

3.4 Contract Administration
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A jetty had been constructed by the Authority under the Kalpitiya Project incurring a sum of Rs. 16,772,988 for the purpose of community development of Kalpitiya area. However, due to the construction failures and construction of another jetty under the "Mganaeguma Project" too, for the same purpose and at the same place, entire cost expended under the Project had become pointless.

3.5 Delays in Projects
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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, the Project is still in the initial stage.

(b) A Project implementation plan and a detailed budget covering the project management expenses, consultancy and capital work etc. had not been prepared.

(c) According to the information furnished to audit, a sum of Rs. 92.6 million had been spent to develop the identified lands up to end of the year under review. The Chairman of the Authority informed me on 21 August 2012, as follows.

"The expenditure incurred for the Project work of the KITRP was for operation of the office and investment promotions and the initial construction of the roads and Jetty's and other infrastructure facilitation which was initiated by the KITR project".

(d) According to the information made available to audit, two Islands have been transferred to the developers on lease agreements. However, particulars relating to land valuation and basis of selection of developers had not been furnished to audit. In addition, the authority from the Department of Costal Conservation, in terms of Costal Conservation Act No. 57 of 1981, had not been obtained to develop the

Islands for tourism purposes. The Chairman of the Authority informed me on 21 August 2012, as follows.

“All the necessary procedures were followed for the leasing of these Islands where the procurement documents was prepared by the KITR project and approved by the then Ministry for Tourism”.

## 3.6 Human Resource Management

According to the information made available to audit, number of employees of the Authority made under 17 service categories,176 and 157 relating to the year under review and the preceding year respectively. Sums of Rs.61.9 million and Rs.53.8 million had been spent by the Authority for salaries, wages and other allowances of the employees during the year under review and preceding year respectively. Thus indicating that the cost per employee for the year under review and the preceding year were Rs. 351,705 and Rs. 342,675respectively.

## 3.7 Transport Fleet

Following observations are made

(a) According to the information furnished to audit, a sum of Rs.6,468,652 had been spent for the fuel, maintenance and repair of 10 vehicles during the year under review. However, information relating to distance traveled had not been furnished to audit.

(b) A sum of Rs. 6,035,408 had been spent to hire the vehicles during the year under review. However, information relating to the distance traveled by the hired vehicles had not been furnished to audit.

# 4. Accountability and Good Governance

## 4.1 Corporate Plan

A corporate plan for the Authority for 2010 to 2012 had been prepared. A new plan had been prepared for the year under review covering the period of 2011 to 2016 revising the above plan. However, some of the major activities had been implemented without following the guidance in the corporate plan. For example, a procurement plan had not been prepared based on the activities mentioned in the corporate plan and annual action plan.

## 4.2 Action Plan

An action plan had been prepared for the year under review.

## 4.3 Budgetary Control

Following observations are made

(a) A sum of Rs.73.3 million had been spent for capital nature during the year under review. However, a detailed budget for capital expenditure had not been prepared.

(b) Significant variances were observed between the estimated expenditure and the actual for the year under review,thus, indicating that the budget had not been made use of as 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) Receivables and payables.
f) Payment of advances.