Sri Lanka Tourism Development Authority - 2010

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1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Tourism Development Authority had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Sri Lanka Tourism Development Authority as at 31 December 2010 and the financial results of its operations and the cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Rendition of Accounts

a) Even though the financial statements of the Authority were furnished to audit on 28 February 2011 in terms of to Section 6.5.1 of Chapter 6 of the circular No. PED/12 of 2 June 2003, those financial statements had subsequently been withdrawn on 31 May 2011 due to non amalgamation of Kalpitiya Project cost with the Authority accounts. Thereafter, amalgamated financial statements were furnished to the audit on 01 June 2011.

b) Detailed schedules relating to seventeen items in the accounts aggregating Rs. 2,085,219,903 which comprises with assets, liabilities and expenses had not been furnished to audit along with the financial statements. However, those schedules had been submitted to audit from time to time up to 27 September 2011. This practice leads to limit the audit review and tests according to the available staff and time schedule of the audit.

1.2.2 Accounting Policies

Following observations are made.

(a) According to the Tourism Act No. 38 of 2005 main objective of the Authority is to develop the country as a tourist and travel destination. More than 80% of the required funds had been provided by the Government through the Embarkation and Tourism Development Levy.

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

(c) 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 there nature.

1.2.3 Sri Lanka Accounting Standards (SLAS)

Sums of Rs. 15,918,750 and Rs. 7,252,357 relating to the income and expenditure respectively had been adjusted to the accumulative surplus account as corrections made for the prior year errors. However, these adjustments had not been disclosed in the accounts according to the correction procedure prescribed in the SLAS-10.

1.2.4 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

(a) Existence and future economic benefits of the long-term investments amounting to Rs. 53,890,268 are doubtful due to the non-availability of legal documents and uncertainty of the invested amount. However, this amount had been shown in the accounts as investment property without disclosing the actual position of the investments.

(b) Income received in advance amounting to Rs. 28,188,855 and Value Added Tax (VAT) payable amounting to Rs. 2,378,321 had been accounted for as deposits payable.

(c) According to the financial statements of the Authority, the value of the Property Plant and Equipment as at 31 December 2010 was Rs. 2,098,797,951.However, physically verified values had not been reconciled and adjusted in the accounts.

1.2.5 Accounts Receivable and Payable

Following observations are made.

(a) According to the age analysis furnished to audit, out of the trade debtors amounting to Rs. 31,563,389, a sum of Rs. 13,679,315 was outstanding for 2 to 3 years. Further, another sum of Rs. 1,623,697 was outstanding for over 4 years.

(b) According to the information made available for audit, out of the sundry creditors amounting to Rs. 2,381,826, about 75% were not actually existed. However, action had not been taken to write off from the accounts.

(c) A sum of Rs. 10,097,754 had been made as a provision for bad debts, without being considered the nature of the receivables. For example, a sum of Rs. 5,670,571 had been provided for debts receivable from a registered hotel amounting to Rs.16,556,353 which accumulated for over 3 years, without being taken any legal action to recover the debts.

1.2.6 Differences in the Accounts

Following observations are made.

(a) A difference of Rs. 14,512,838 had been observed between the amounts payable by the Authority to the following institutions according to the account of the Authority and the accounts of the respective institutions.

Institution	**According to the Accounts of the Authority Rs.**	**According to the Financial statements of the respective Institutions Rs.**	**Difference Rs.**
Tourism Development Fund	70,576,634	60,809,294	9,947,340
Sri Lanka Tourism Promotion Bureau	43,948,356	43,433,205	515,151
Sri Lanka Institute of Tourism and Hotel Management	6,965,660	3,934,242	3,314,418
Sri Lanka Convention Bureau	735,929	Nil	735,929

(b) The difference of Rs. 86,512,880 had been observed between the amounts receivable to the Authority from the Sri Lanka Convention Bureau and Sri Lanka Institute of Tourism and Hotel Management, according to the account of the Authority and the accounts of the above institutions with regard to Embarkation Levy and general overheads. The details are as follows.

Institution	**According to the Accounts of the Authority** **Rs.**	**According to the Financial statements of the respective Institutions** **Rs.**	**Difference** **Rs.**
Sri Lanka Convention Bureau	Nil	23,779,840	23,779,840
Sri Lanka Institute of Tourism and Hotel Management	6,967,785	69,700,825	62,733,040

(c) A difference of Rs. 2,587,166 was observed between the depreciation shown in Income and Expenditure statement and corresponding amount shown in the statement of the Property, Plant and Equipment.

1.2.7 Non compliance with Laws, Rules, Regulations and Management Decisions

Following Instances of non-compliance were observed in audit.

(a) **Public Enterprise Guidelines for Good Governance Circular No.PED/12 of 2 June 2003.**

(i) The Draft Annual Report should be rendered for audit within 60 days after the closure of the financial year in terms of Section 6.5.1 of Chapter 6 of the circular. However, the Draft Annual Report for the year under review had been furnished to audit only on 26 August 2011.

(ii) 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 in terms of Section 9.14.1of Chapter 9 of the circular, the Authority had failed to comply with that requirement.

(b) Preparation of a procurement plan, and forwarding of the copies of the contract agreements, in respect of contracts awarded to VAT registered suppliers to the Auditor General on or before 15th day of the next month after entering into the Contracts in terms of Sections 4.2.1and 8.12 of the National Procurement Agency Circular No.09 dated 01 March 2006 had not been complied with.

(d) Pool vehicle had been used by the Officers who have allocated vehicles to official use contrary to the instructions given in the Public Administration circular No. 13/2008 of 24 March 2008 and Public Enterprises circular No PED/50 of 28 July 2008.For example, according to a sample check conducted in this regard revealed that certain Officers who have allocated vehicles had used pool vehicles in fifteen instances during three month period of the year under review. .

(e) Five vehicles had been obtained by the Officers of the Authority on the basis of lease agreements instead of being leased the vehicles to the Authority. Further, fuel allowances had been paid up to 500 litres exceeding the 120 liters of fuel limit without following the requirements in the circular instructions in the Public Finance circular No. 353(v) of 31 August 2004, Public Enterprises circular No. PED/28 of 31 January 2005 and Public Administration circular No 13/2009 of 24 March 2008(ii), and without having the approval of the Treasury. As such, 9,000 additional litres of fuel valued at Rs.1,080,000 had been obtained for 10 months period up the end of the year under review.

(f) The inventory register had not been maintained according to the format given in the Financial Regulations 454.

(g) Copies of the letters issued by the Authority relating to the human resource management such as recruitment, transfers, revision of salaries etc. had not been furnished to the Auditor General according to the instructions stipulated in Section 10.2 of Chapter 6 of the Establishments Code.

1.2.8 Lack of Evidence for Audit

Fourteen items in the accounts aggregating Rs.19,778,513 which comprises with assets, liabilities and expenses could not be satisfactorily vouched or accepted in audit due to non-availability of evidence such as supporting documents, rent agreements etc.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2010 had resulted in a surplus of Rs. 65,244,624 as compared with the corresponding surplus of Rs. 60,625,182 for the preceding year, thus indicating an increase of Rs.4,619,442 in the financial result. The increase of Tourism Development and Embarkation Levy by Rs. 37,460,451 was the main reason for the increase in financial results.

2.2 Operating Review

2.2.1 Operations of the Resorts

There were 07 Tourist Resorts under the supervision and management of Authority. The net accumulated surplus of the Resorts were Rs. 115,560 for the year under review as compared with Rs. 2,407,975 for the year 2009. Except three Resorts, others were operated in loss making due to the excessive overheads. As a result, overall profitability of the Resorts operations was only 0.14% when compared to the total revenue generated.

2.2.2 Identified Losses

Receivables amounting to Rs. 901,258 relating to dues from employees and receivable levy from the rest houses had been written off from the accounts during the year under review as unrecoverable debts.

2.2.3 Kalpitiya Integrated Tourism Resort Project

The main objective of the Project is to develop the exclusive tourism resort to create new tourism demand. The secondary objectives are to create 15,000 direct jobs and 50,000 indirect jobs and enhance the living standards of the regional community.

Approvals to implement the Project had been obtained from the Cabinet of Ministers and the National Policy Planning Department of the Treasury in 2008. Approval of the National Policy Planning Department had been granted to implement the Project as local funding Project, and to raise the funds from the Cess Fund subject to the Cabinet approval. Further, approval of the Department of Management Services had been obtained to recruit 08 employees as project staff. Following observations are made in this regard

(a) According to the information furnished to audit, a sum of Rs. 72.5 million had been spent to develop the identified lands up to end of the year under review.

(b) A sum of Rs. 80 million had been contributed to the Project by the Authority, Sri Lanka Tourism Promotion Bureau, Sri Lanka Institute of Tourism and Hotel Management and Sri Lanka Convention Bureau, out of the funds allocated to those institutions from the Cess fund.

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

(d) Even though this Project was funded from the Cess Fund, the project staff has obtained salaries and allowances according to the Section 4.2.4 of the Management Services Circular No.33 of 5 April 2007, considering this Project as foreign funded Project of which over US$ 30 million, without having the Treasury approval or with out signing a loan agreement with a foreign donor.

(e) According to the information furnished to audit, two Islands namely Vellai and Ippantivu 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.

2.2.4 Human Resource Management

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According to the information submitted to audit, number of employees of the Authority was made under 16 service categories. The number of employees were 157 and 162 relating to the year under review and the preceding year respectively. Sums of Rs. 48.8 million and Rs.43.4 million had been incurred 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.301,235 and Rs. 276,433 respectively.

2.2.5 Utilization of Vehicles

Following observations are made

(a) Information relating to the utilization of vehicles such as fuel, maintenance costs etc. had not been furnished to audit. According to the financial statements of the Authority, a sum of Rs.6,468,652 had been spent for the maintenance and repair of the vehicles during the year under review.

(b) In addition, a sum of Rs. 6,035,408 had been incurred to hire the vehicles during the year under review. Number of hired vehicles utilized and particulars relating to distances traveled, running cost per KM etc. had not been furnished to audit.

2.2.6 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 2013 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.

2.3 Budgetary Control

A sum of Rs.132.5 million had been spent for capital assets during the year under review. However, a detailed budget for capital expenditure had not been prepared. For example, the actual expenditure on statistical surveys and data processing were exceeded by 90% and 100% respectively when compared to the budgeted expenditure thereon. Thus, indicating that the budget had not been made use of as an effective instrument of management control.

3. 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) Implementation of land development programmes.
c) Project management.
d) Assets management.
e) Receivables and payables.
f) Payment of advances.