

Sri Lanka Tourism Development Authority - 2013

The audit of financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act No. 38 of 1971 and Section 20 of the Sri Lanka Tourism Development Authority Act No. 38 of 2005. My comments and observations which I consider should be published with the annual report of the Authority in terms of Section 14 (2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks assessments he auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)

The following non-compliances were observed in audit.

Reference to Sri Lanka Public Sector Accounting standards	Non- compliance
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(a) Standards No. 07	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. Nevertheless without being revalued the entire lands and buildings owned by the Authority only the land and buildings at the Head office had been revalued in 2008 and shown in the financial statements based on the revaluation value amounting to Rs. Million 1,378. Due to the non-valuation of the other lands and buildings, the fair value of the lands and buildings of the Authority were not reflected in the financial statements.
(b) Standards No. 07	Even though the assets given under the operating leases should be shown according to the nature of the assets in the statement of financial position of the lessor, the value of the lands and rest houses given under the operating leases had not been shown in the statement of financial position of the Authority.

(c) Standards No. 08

The following legal actions against the Authority and initiated by the Authority had not been disclosed in the financial statements.

- (i) Three cases filed in the courts against the Authority claiming compensation of Rs. 32,980,555 for the supply of food, lodging and transportation facilities for Indian International Film Awarding Ceremony by 03 external institutions.
- (ii) Three cases filed against the Authority claiming redress by two employees and a lease holder of lodging.
- (iii) Three cases filed by the Authority against 13 outside persons regarding misappropriation of the Government property.

2.2.2 Unexplained Differences

Differences were observed between the financial statements of the Authority and the balances of the financial statements of the following Institutions whereas the explanations thereon had not been furnished to audit.

Description	Balance as per Financial Statements	Description of Subsidiary Financial Records	Balance as per the Subsidiary Records	Difference
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	Rs.		Rs.	Rs.
Amount Payable to Sri Lanka Convention Bureau	26,848	Statement of financial position of Sri Lanka Convention Bureau	58,115,407	58,088,559
Amount payable to Sri Lanka Hotel and Management Institute	6,511,960	Statement of financial position of Sri Lanka Hotel and Management Institute	130,297,422	123,785,462

Amount receivable to Sri Lanka Hotel and Management Institute	11,290,282	Statement of financial position of Sri Lanka Hotel and Management Institute	8,297,268	2,993,014
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2.2.3 Accounts Receivable and Payable

The Trade Debtor Receivable balances had comprised of Rs.2,050,954, Rs.79,451 and Rs.4,621,863 remained outstanding for more than 4 years, more than 3 years less than 4 years and more than 1 year respectively.

2.2.4 Lack of Evidence for Audit

The evidence indicated against each of the following items was not made available to audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Investments for Depreciation (Tourist Board)	52,154,737	} (i) Certificate or any other written document (ii) Confirmation letters of Balances
(b) Investments for Depreciation (Tourism Promotion)	976,509	
(c) Sinking Fund	759,021	} (i) Share Certificates or other written document (ii) Confirmation letters of Balances
(d) Sri Lanka Tourist Hotels Company Ltd.	750,000	
(e) Supplies (metal in large size)	1,067,850	(i) Documents for Selection of Supplier. (ii) Invoices furnished by Supplier. (iii) Details of Vehicles used for transportation of material. (iv) Actual records for taken over supplies and work done records.

(f)	Land, acres in extent of northern boundary of Bentota Holiday Resort land adjoining to Bentara River.	-	Documents relating to exclusion from the ownership of the Tourism Development Authority the successor institute of the Tourist Board.
(g)	Trade Debtors	20,641,412	Confirmation letters of Balances
(h)	Sundry Debtors	4,638,137	Confirmation letters of Balances
(i)	Water Consumer Debtors (Pasikuda)	8,293,318	Confirmation letters of Balances

2.3 Non – Compliance with Laws, Rules Regulations and Management Decisions

The following non-compliances were observed in audit.

Reference to Laws, Rules Regulations and Management Decisions	Non – Compliance
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(a) Tourism Act No. 38 of 2005	Approval of the relevant Minister had not been obtained for incurring a sum of Rs.7,382,305 by the Authority and out of the interest on a loan amounting to Rs.100 million issued to a private hotel by the Bank of Ceylon.
(i) Section 12(4) (iii) of Chapter 1	
(ii) Section 7(3) of Chapter 1	In order to activate the decision taken by the Board of Directors met on 6 June 2010 to bear the above Loan interest by the Authority, there was no quorum of 5 members.
(b) Guidelines Circular issued by the Secretary to the President dated 24 January 1996	Even though the lease agreement and lease amount should be revised in every 5 year when State Lands are given on lease action had not been taken to comply with this circular with regard to the lands given on lease by the Authority.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Paragraph 9.3.1 (i) of Chapter 9	Even though the Scheme of Recruitment and Promotions should have been approved by the Governing Council and the Ministry together with the concurrence of the Department of Public Enterprises, the recruitments to new division named as “One Stop Unit” had not been made in

complying with this requirement.

(ii) Paragraph 9.14.1 of Chapter 9

Even 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 of Directors together with the concurrence of the Secretary to the Treasury, the Authority had not taken action in compliance with that requirement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Authority for the year ended 31 December 2013 had resulted in a surplus of Rs. 268,934,194 as compared with the corresponding surplus of Rs. 190,161,685 for the preceding year, thus indicating an increase of Rs. 78,772,509 in the financial results. The increase of Tourism Development and Embarkation Levy and other income by Rs. 93,112,758 had been the main reason for the increase in financial results.

3.2 Analytical Financial Review

The revenue of the Authority for the year under review amounted to Rs.496 million as compared with Rs. 408 million for the preceding year representing an increase of 21.5 per cent. The expenditure for the tourism development activities during the year under review amounted to Rs.227 million as compared with Rs. 217 million for the preceding year. As such an improvement of 4.6 per cent was shown.

4. Operating Review

4.1 Performance

The following Observations are made.

(a) Performance of the Resorts

The net surplus of the 04 Tourist Holiday Resorts and 03 Tourist Resorts operated under the ownership and management of the Authority for the year under review amounted to Rs.4,642,129 as compared with the net surplus of Rs. 13,605,316 for the year 2012. A deficit of Rs.15,667,048 had arisen due to high overhead expenditure in 03 Holiday Resorts and it was the main reason for the decrease of surplus.

(b) Objectives and functions which could not be achieved by the Authority during the Year under Review or by now.

The following objectives and functions had not been achieved according to the Chapter 1 of the Tourism Act No. 38 of 2005.

- (i) Preparation of long term targets and four year plan and obtaining the approval of the Cabinet of Ministers, making revisions with the objective of including new long term targets annually and obtaining the approval of the Cabinet of Ministers.
- (ii) Formulation of Rules in respect of matters specially stated in the Act, and thereby improve the locally and internationally recognized standards with regard to the tourism industry, and other related industries, giving licenses and authority to tourism entrepreneurs for enforcing and maintaining.
- (iii) Establishment of common or other boards to facilitate for the achievement of objectives of the Act.
- (iv) Engage in business in providing transport facilities to people who are travelling to places in Sri Lanka that captured minds of tourists.
- (v) Registration of tourism entrepreneurs and tourism services and regularization of prices, rates and charges of tourism services in terms of the Chapter IX of Tourism Act No. 38 of 2005.

4.2 Management Inefficiencies

Management of Lands and Property

The following observations are made.

- (a) Out of the land, approximately 510 acres in extent acquired from the Kuchchiweli area in Trincomalee by the Authority, only less than 50 acres of land had been developed by the end of the year under review.
- (b) A register for lands and assets indicating the details such as transfers of deeds of the properties, additions and developments had not been maintained.
- (c) Even though the Gazette Notification had been issued to acquire 56 rest houses and 166 plots of land with an extent of 6,495 acres, only a part of it had been acquired up to the end of the year under review.
- (d) Sand had been removed at a large scale from several places in Warahena area in the land of Bentota National Holiday Resort and disposal of waste to the resort land and several

encroachments. Action had not been taken to stop this type of unauthorized actions taking place in this tourist area by the Authority.

4.3 Apparent Irregularities

The following observations are made.

- (a) Contract for the Construction of Thorriyadi Jetty and Construction of Road near the Wannimundalama lagoon.
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- I. Instead of supplying metal from the supplier selected under shopping procedure 1648 cubes of metal had been purchased at higher prices from a person who selected by the Project Director of his own descreation and such an over payment of Rs. 824,000 had been made.
- II. Even though the capacity of the tipper used for the supply of metal, gravel and ABC to Kalpitiya work site was 3 cubes, the payments had been made for the material supplied by considering the capacity as 4 cubes; Thus action had not been taken to recover the overpaid amount of to Rs. 2,549,000.
- III. Payments of Rs. 10,196,000 had been made by the Authority for the materials such as 1648 cubes of metal, 368 cubes of ABC and 40 cubes of gravel which had not been physically taken over.
- (b) The labour contract for maintaining the sewerage system in the Bentota Holiday Resort premises had been entrusted to one and a same institute since several years without following procurement procedure. Sums of Rs. 4,458,023 and Rs. 5,126,726 had been paid to that institute by the Authority in the year 2012 and 2013 respectively for the labour contract. The above institute had given a sub contract for Rs. 2,976,000 to the sub-contractor for the two years for the same work as such the loss incurred by the Authority by sub-contracting the same work amounted to Rs. 6,608,749
- (c) Out of the payments made to the contractor amounting to Rs. 29,195,802 for the repairs carried out in room numbers 14 to 44 in the Kataragama Tourist Holiday Resort, a sum of Rs. 11,089,228 had been overpaid.
- (c) A sum of Rs. 3,226,950 had been paid for 941.7 clock hours based on 3 letters produced by suppliers stating that the dozers were supplied for the construction of Mohottuwarama Jetty at Kalpitiya. Nevertheless, the payments had been made without being certified by an officer of the Authority in recording working hours daily by meter reading to ensure that the service of dozers had been obtained. However the work supervisor of the project had certified in the above 3 letters that the tractor service had been satisfactorily obtained.

4.4 Idle and Under- utilized Assets

The following observations are made.

- (a) The bus purchased at Rs. 5,934,000 had been repaired subsequently at Rs. 2,667,929 but it had not been utilized for running from June 2012 up to 31 December in the year under review.
- (b) Out of about 94 acres of land extent belonging to the Bentota Tourist Holiday Resort which had been transferred to Ceylon Tourist Board for Tourism industry in 1969 and subsequently transferred to Tourism Development Authority, only a land to the extent of 50 acres had been utilized even by 31 December in the year under review. Accordingly the land more than 40 acres in extent had remained idle for more than 43 years.

4.5 Uneconomic Transactions

About Rs. 3,508,415 had been paid for security services prior to 03 years for the 07 Holiday Resorts in Bibile, Ragala, Horowpathana, Mahiyanganaya, Weeraketiya, Baththulu Oya and Nikaweratiya. Nevertheless, these resorts had not been utilized effectively.

4.6 Identified Losses

The following observations are made.

- (a) A loss more than Rs. 100,000 had incurred by the Authority due to not gathering harvest from about 600 Coconut and King Coconut trees cultivated in the land in Bentota National Holiday Resort for about six months period continuously from July 2013.
- (b) Building space of about 2880 sq. feet existing in the premises of Bentota National Holiday Resort had not been utilized for any economic activity from the year 2006 up to the end of the year under review. Monthly earnings of these building space in the year 2006 amounted to Rs. 20,000 and as such the total estimated loss thereby had been Rs.1,800,000.
- (c) Kalpitiya Integrated Tourism Development Project had been categorized as a project more than 30 million U.S. Dollars and a sum of Rs. 3,780,253 had been overpaid as salaries and allowances.
- (d) In transferring the Cultural Centre Building (Deutsch Hospital) located in Colombo belonging to the Authority to Urban Development Authority it had been transferred less than Rs.7,274,715 to the book value.

- (e) The Authority is supplying water to a private, business institution situated in the area of Bentota National Holiday Resort while the water meter had remained in- operative since the year 2005. Due to non-repairing the water meter and non-recovering the correct charges the loss estimated at Rs. 8,415,400.

4.7 Contract Administration

The following observations are made.

(a) Construction of Rain water Drainage System of the Pasikuda Tourist Resort Project.

- I. As the constructions had not been carried out by considering the geographical aspects of the land in which the construction project was implemented water remained stagnated in the drainage system.
- II. The Director of the Planning and Development Division of the Authority had performed as the Chairman of the Technical Evaluation Committee of is project and the payment vouchers in respect of the project amounting to Rs. 31,394,813 had also been certified by him. Even though the measurement sheets and payment bills with regard to above payment vouchers had been checked, certified and payment vouchers had also been prepared by the Resort officer who served under contract basis, it did not come under his scope.
- III. In comparing the payments made on bills with the actual measurement sheets computed at the physical verification of constructions in audit an over payment of Rs. 3,792,420 had been made to Contractors.

(b) Contract for Designing “One Stop” Investment Promotion web site of the Sri Lanka Tourism Development Authority.

- I. A Pre-plan or an estimate had not been prepared for designing of a website.
- II. Without entering into a written agreement with the Client selected, only the relevant assignment had been informed in writing.
- III. A performance bond had not been obtained in respect of the contract.
- IV. An over payment of Rs. 699,300 had been made as at 6 January 2014 relating to this contract.

4.8 Delays in Projects

The following observations are made in respect of the Kalpitiya Integrated Resort Project which had been scheduled to construct resorts with 4,000 additional rooms and infrastructure facilities at an estimated cost of Rs. 5,521 million.

- (a) The approvals of the Cabinet of Ministers and the Department of National Policy Planning of the Treasury had been obtained in 2008 to implement and complete the project within five years. Nevertheless, even a single room had not been completed up to 31 December 2013.
- (b) A project implementation plan and a detailed budget by covering management expenses, consultancy and capital works had not been prepared.
- (c) Even though the Authority was authorized to give 12 islands to the investors under this project, 3 islands had been given to investors up to the end of the year under review.

4.9 Human Resources Management

The approved cadre of the Authority was categorized under 31 posts and 192 persons were approved by the Department of Management services. The actual cadre for the year under review and the preceding year had been 156 and 154 respectively.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan for 3 years from 2013 to 2015 had been prepared. The targets had not been stated for some items in the Plan and the targets to be achieved at the end of each year had not been reviewed and updated periodically.

5.2 Action Plan

An action Plan had been prepared for the year under review. The periods had not been specified in the plan and a methodology had not been introduced to examine the achievement of progress periodically.

5.3 Internal Audit

An internal audit unit has been maintained under an officer who holds a post of Assistant Director while no adequate sub ordinate staff had been attached to that unit.

5.4 Procurement Plan

A Master Procurement Plan had not been prepared in items of the National Procurement Agency Circular No. 8 and 4.2.1 (b) of 25 January 2006.

5.5 Budgetary Control

Variances were observed between the estimated and the actual figures of 13 items ranged from 22 per cent to 100 per cent in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.6 Tabling of Annual Reports

The Annual Report of the Sri Lanka Tourism Development Authority for the year 2011 had been tabled in parliament in 2014.

6. Systems and Controls

Deficiencies observed 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) Development Programmes
- (b) Project Management
- (c) Assets Management
- (d) Accounts Receivable and Payable
- (e) Contract Administration
- (f) Accounting