Sri Lanka Tourism Development Fund - 2016

The audit of financial statements of the Sri Lanka Tourism Development Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 20 of the Tourism Act, No.38 of 2005. My comments and observations which I consider should be published with the Annual Report of the Fund appear in this report.

1.2 Management's Responsibility for the Financial Statements

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 Auditing 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 risk assessments, the auditor considers internal control relevant to the Fund'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 Fund'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.

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

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Tourism Development Fund as at 31 December 2016 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 Unexplained Differences

A difference of Rs.133,694,064 was observed in the comparison between the balances of two items of accounts shown in the financial statements of the Tourism Development Fund and the account balances of the Sri Lanka Tourism Promotion Bureau.

2.3 Transactions not supported by Adequate Authority

A sum of Rs.6,442,081 had been paid to the Sri Lanka Tourism Development Authority as the administration expenses despite the non-availability of provisions in the Tourism Act, No.38 of 2005 for the payment of administration expenses.

2.4 Non- compliance with Laws, Rules, Regulations and Management Decisions

The following non- compliances were observed in audit.

	Reference to Laws, Rules, and Regulations	Non- compliance
(a)	Section 24(3)of the Tourism Act,No.38 of 2005	Rules for the management and administration of the Tourism Development Levy had not been formulated.
(b)	Sub-section 2(b) of the Finance Act, No. 25 of 2003	A levy should be charged from every ticket issued in respect of a passenger embarking a ship leaving Sri Lanka and a part of that levy should be remitted to the Authority. Nevertheless, levies from passengers embarking ships had not been charged and remitted to the Authority while confirmations in support of non-existence of charges from passengers embarking ships had also not been obtained.
(c)	Financial Regulation 169(2)of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	A sum of Rs.143,504 pertaining to 07 cheques could not be recovered as the services were rendered before realizing the cheques.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the income generated from the operation of the Fund during the year under review amounted to Rs.3,644 million as compared with the corresponding income of Rs.2,994 million for the preceding year, thus indicating an improvement of Rs.650 million in the income of the year under review as compared with the preceding year. The increase in the Embarkation Tax income by Rs.648 million had been the major reason for the increase in the income. Further , it was observed that the overall income of 05 preceding years has indicated a continuous improvement.

4. Operating Review

4.1 Performance

One third of the Embarkation Tax collected in terms of Section 2 of the Finance Act, No. 25 of 2003 and the Tourism Development Levy under the Tourism Act, No.38 of 2005 are the income of the Fund. The Act had made provision to grant those money to the Sri Lanka Tourism Promotion Bureau, Sri Lanka Institute of Tourism and Hotel Management, Sri Lanka Tourism Development Authority and Sri Lanka Convention Bureau for the expenditure incurred on tourist business promotion or development at the rates of 70,12,14 and 4 per cent respectively.

Subsequent to incurring expenditure of Rs.6,734,861 by the Fund during the year under review the balance had been granted to the aforesaid institutions as Rs.2,546,190,816, Rs.436,489,854 ,Rs.509,238,163 and Rs.145,496,618 respectively. Nevertheless, the Fund had not formulated a methodology to take follow up action on the utilization of those money for the said purpose by the respective institutions. Even though all the money to the credit of the Tourism Development Fund should be distributed among the relevant institutions in terms of Section 24(8) of the Tourism Act, No.38 of 2005, action had not been taken to distribute a sum of Rs.639,762,905 to the credit of the Fund as at the end of the year under review.

4.2 Management Activities

The following observations are made.

(a) A methodology for the definite identification of the institutions from which the Tourism Development Levy is recoverable had not been formulated.

(b) The inadequacy of fines imposed on those who do not pay the Tourism Levy within the due period in terms of the Paragraphs 1 and 4 of the Notification published in the Gazette Extraordinary No.1318/24 of the Democratic Socialist Republic of Sri Lanka dated 11 December 2003 had led to discouragement for paying the Tourism Levy.

(c) In case of non-payment of levy by aviation companies within the due period, a methodology had not been formulated to ensure whether such money together with fines with due interests are being recovered and remitted to the Authority in terms of Section 4(3) of the Finance Act, No.25 of 2003.

5. Accountability and Good Governance

5.1 Internal Audit

In terms of Financial Regulation 133, an internal audit had not been carried out to identify the weaknesses in systems and controls in the collection of income, computation of arrears of income, accounting of income and the recovery of tax pertaining to the Tourism Development Levy and the Embarkation Tax being the two main sources of income of the Fund.

5.2 Unresolved Audit Paragraphs

According to the Notification under the provisions in the Finance Act, No.25 of 2003 published in the Gazette Extraordinary No.1303/22 of 29 August 2003, every person departing from an aircraft or a ship should pay an Embarkation Tax of US $15 and US $ 2.5 respectively in terms of provisions in the Finance Act, No.25 of 2003. Nevertheless, the Director General of Civil Aviation who recovers the Embarkation Tax had recovered this Tax from the year 2004 to 31 December 2012 at the exchange rate of Rs.100 per the United States Dollar despite the changes in exchange rates. As such, an income of approximately Rs.300,000,000 had been deprived of during this period.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Systems and Controls	Observations
(a)	Accounting	Failure to distribute the money remained as at the end of the year.
(b)	Collection of Embarkation Tax	Failure to levy the tax from every person departing from a ship.
(c)	Internal Audit	Failure to carry out an internal audit.