

## **Sri Lanka Tourism Development Authority – 2017**

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The audit of financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and the Statement of Financial Performance, Statement of Changes in Equity, 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 provision 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 Tourism 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 the Financial Statements**

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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**

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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 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 Authority’s preparation and fair presentation of the financial statements in order to design audit procedures, 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 audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Basis for Qualified Opinion**

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

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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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 2017 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**

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##### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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(a) Sri Lanka Public Sector Accounting Standard 02

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An amount of Rs. 3,660,000 that received from selling a motor vehicle in the year under review had not been stated under investing activities.

(b) Sri Lanka Public Sector Accounting Standard 07

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Following observations are made.

- (i) Although the entire class of property, plant and equipment to which that asset belongs shall be revalued when property, plant and equipment is revalued as per Paragraph 49 of the Standard, the revaluation value amounting to Rs. 1,378 million had been stated in the financial statements by revaluating only the land and the building in which the Head Office is located in the year 2008 without revaluating all the lands and buildings belonging to the Authority.
- (ii) Although 10 items of assets costing to Rs. 240,036,680 had been totally depreciated as the useful life time for non-current assets was not reviewed annually as per paragraph 65 of the Standard, it had been utilized further. Accordingly, action had not been taken to revise the estimated error as per Sri Lanka Public Sector Accounting Standard 03.
- (iii) Although the lands and rest houses that owned to the Authority were given to the other parties for rent, it had not been disclosed in that regard in the statement of financial position.

### 2.2.2 Accounting Deficiencies

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The following observations are made.

- (a) The value of intangible assets and accumulated profits as at 31 December in the year under review had been over stated by Rs. 87,063,977 as the accumulated depreciation of Rs. 87,063,977 was not accounted in relation to the development cost of Rs. 110,449,509 that done in the properties owned to the Authority.
- (b) A sum of Rs. 51,019,696 had been paid in the year under review to the Employee Provident Fund and Employee Trust Fund for 2016 and previous years and as the total amount was adjusted to the financial performance statement of the year under review instead of corrected retrospectively by restating the comparatives figures of contribution monies paid for the year 2016 and restating the opening balances relating to the balances of previous years, the surplus had been under stated in that amount.

### 2.2.3 Lack of Evidence for Audit

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Following evidences indicated against the objects had not been presented to the audit.

	<b>Accounts Objects</b>	<b>Amount (Rs.)</b>	<b>Unpresented Evidence</b>
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(a)	Investment (Tourism Authority)	52,154,738	} Investment Certificate or other written evidence of confirmations
(b)	Investment (Tourism Promotion)	976,509	
(c)	Tourism Fund	930,000	} Certificates of shares or other written evidence and balances of confirmations
(d)	Investment in Sinking Fund	759,021	
(e)	Sri Lanka Hotel Tourism Limited Company	750,000	
(f)	Trade Debtors	60,834,836	Letters of confirmation of balances
(g)	Miscellaneous Debtors	4,688,558	Letters of confirmation of balances
(h)	Water Consumption Debtors (Pasikuda)	23,227,328	Letters of confirmation of balances
(i)	Sewage Services Supply Receivables	124,752,772	Letters of confirmation of balances
(j)	Debtors- National Paper Corporation	9,627,113	Letters of confirmation of balances

(k)	Advances for Suppliers and Employees	21,302,883	Letters of confirmation of balances
(l)	Depreciation for Property, Plant and Equipment	67,624,406	Detailed source documents based on individual balances
(m)	Land	33,904,345	Documents confirming ownership
(n)	Deposits/ Other Payments	21,302,882	Relevant documents for deposit confirmation

#### **2.2.4 Unexplained Differences**

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An amount of Rs. 18,613,438 had been recorded as miscellaneous debtor balances receivable from Sri Lanka Tourism Promotion Bureau according to the financial statements of the Authority and an unexplained difference of Rs. 7,199,094 was observed as that balance had been stated as Rs. 25,812,532 in the accounts of Sri Lanka Tourism Promotion Bureau.

#### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) Trade debtor receivable of Rs. 2,758,157 for more than 04 years and Rs. 59,936,047 for the period between 01 to 04 years had been remained without recovering.
- (b) Receivable deposits amounted to Rs. 6,963,732 for more than 05 years and Rs. 1,700,000 for the period between 03 to 05 years had been remained without recovering.
- (c) A balance of Rs. 18,670,721 that should be recovered from Pasikuda water consumption debtors had been remained in the period between 01 to 02 years without recovering.
- (d) According to the financial statements, out of the retention, an amounts of Rs, 15,566,948 of more than 04 years, Rs. 4,881,330 of more than 02 years and less than 04 years and Rs. 11,026,841 of less than 01 year had been remained unsettled.

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

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The following non-compliances were observed in audit.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Sub section 26(1) of Chapter IV of the Tourism Act No.38 of 2005	Orders had not been prepared assigning the tourism activities, commercial and other activities that could be carried out within a declared and a tourism development area.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
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(i) Financial Regulation 169(2)	It had not been able to recover money relating to 22 cheques valued at Rs. 650,034 due to providing services before cheques are being realized.
(ii) Financial regulation 396	Action had not been taken in respect of unrealized cheques of Rs. 2,895,858 that issued during the period of 2010 to 2017 as per financial regulations.
(iii) Financial Regulation 757	A survey in respect of had not been carried out books valued to Rs. 1,880,781.
(c) Sections 9.14.1 and 9.14.2 of Public Enterprises Circular No. PED/12 of 02 June 2003	Even though a Handbook on Human Resources Management including all information on the rules and regulations relating to Human Resources Management should be prepared and should be approved by the Authority of Control with the approval of the Secretary to the Treasury, action had not been taken by the Authority in compliance with those requirements.
(d) Treasury Circular No: 842 of 19 December 1978	A Fixed Asset Register had not been maintained.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the surplus of the Authority for the year ended 31 December 2017 was Rs. 385,538,658 and as the corresponding surplus was Rs. 373,897,908 for the preceding year; an increase of Rs. 11,640,750 had been occurred in the financial results. Although the salaries, wages and employee benefits had been increased by Rs. 91,611,471, an increase of tourism development tax income by Rs. 37,124,844, license fee by Rs. 63,503,290 and other income by Rs. 16,259,224 had been the reasons for above increase in the financial result.

In analyzing financial results of the year under review and of 04 preceding years, an improvement in the financial result had been indicated from the year 2013 to the year 2014. However, deterioration had been indicated in the financial result in the year 2015 as compared with the year 2016 and it had again improved in the year under review. However, in adjusting personnel emoluments and depreciation on non-current assets and government tax again to the financial result, the contribution of the Authority amounting to Rs. 381,486,482 in the year 2013 had been continuously improved and had been a sum of Rs. 623,332,169 in the year under review.

#### **3.2 Legal Actions instituted against and by the Institution**

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Lawsuits had been filed in Court against 03 external persons by the Authority.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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Following observations are made.

- (a) An Annual Action Plan including activities targeted to achieve objectives mentioned in Tourism Act No. 38 of 2005 should be prepared as per Section 04 of Finance Circular No. 01/2014 on 17 February 2014 and according to the sub section (3), Activity Plan prepared based on priorities of annual budget for the year, time line and anticipated output/outcome of those activities should be included. An Action Plan had not been prepared as above by the Tourism Development Authority.
- (b) According to the Section 04(c) of above circular, Action Plan should be prepared based on Annual Budget, the estimated amount for expenditure in each division as per Annual Action Plan was Rs. 1,979.8 million and actual expenditure was Rs. 571.32 million. Accordingly, it was observed that over estimation had been done when estimating expenditure.

#### **4.1.2 Activities and Review**

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Following observations are made.

- (a) According to the Annual Action Plan, out of 111 activities expected to be implemented during the year, only 37 activities had been implemented during the year. It was 33.33 per cent. Out of the activities started in the year, there were 22 activities that spent funds less than 50 per cent and there were 66 activities that not spent money as at 31 December 2017 and Rs. 681.83 million had been allocated for that.
- (b) Four tourist holiday resorts and 03 tourist resorts had been remained under the ownership and management of the Authority. A deficit amounting to Rs. 28,348,616 had been generated in 05 holiday resorts due to the excessive overhead cost and the net loss of all the resorts in the year under review was Rs. 3,391,757. Only 21 per cent out of the provisions allocated for providing facilities of 05 holiday resorts and servicing had been spent.

#### **4.2 Management Activities**

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The Authority has leased out lands for the promotion of tourism industry and the following observations are made regarding the leasing out the lands that owned to tourist areas such as Trincomalee, Yala Palatupana and Kalkuda.

- (a) Only 30 acres of lands had been leased out even by the end of the year under review out of approximately 510 acres of lands in Kuchchaweli area in Trincomalee that taken for the authority.
- (b) Out of the land of 1110 acres in extent vested with the Authority in Yala Palatupana area for the tourism developments, only 63 acres had been given on lease basis to investors up to 31 December of the year under review.
- (c) Out of 202 acres that owned to Kalkuda (Pasikuda) tourist area, 103 acres had been leased out at the end of the year under review and out of 3986 acres that taken from Kalpitiya and suburb islands, only 177 acres had been leased out.

#### **4.3 Idle and Underutilized Assets**

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Following observations are made.

- (a) Out of the land of approximately 94 acres in extent belonging to the Bentota Tourist Resort vested in the Ceylon Tourist Authority in the year 1969 and afterwards in the Tourism Development Authority for the tourism industry, only an extent of land of approximately 54 acres had been utilized up to 31 December in the year under review. As such, an extent exceeding 40 acres of land had remained idle for over a period of 46 years.

- (b) Building space of approximately 2880 square feet located in the Bentota National Holiday Resort premises remained idle without being utilized for any economic activity whatsoever from the year 2006 to the end of the year under review.
- (c) There had been land with the extent of 69 acres and 10 buildings that vested with the Authority but not received rental income to the Authority.
- (d) Although there were 02 holiday resorts in Bibila and Ragala areas, action had not been taken to utilize these resorts productively and earn income.

**4.4 Staff Administration**  
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The cadre of the Authority had been approved as 226 posts under 15 names of posts by the Department of Management Services and the actual cadre of the year under review had been 195 and the number of vacancies was 31.

**5. Sustainable Development**  
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**5.1 Achievement of Sustainable Development Goals**  
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Every public institution should act in compliance with United Nations Sustainable Development Agenda for the year 2030 and with respect to the year under review, Sri Lanka Tourism Development Authority had been aware as to how to take measures relating to the activities under purview of their scope.

**6. Accountability and Good Governance**  
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**6.1 Presentation of Financial Statements**  
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Although financial statements should be presented within 60 days after ending the financial year as per the section 6.5.1 of the Public Enterprises Circular No: PED/12 dated on 02 June 2003, the financial statements of the year 2017 had been presented on 22 June 2018 to the Auditor General.

**6.2 Internal Audit**  
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Although 13 subjects of audit were planned as per Internal Audit Plan, 07 subjects of it had not been audited.

**6.3 Procurement and Contract Process**  
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**6.3.1 Procurements**  
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The plans are prepared to establish central air conditioned system from June 2014 and approximately an amount of Rs. 14,029,949 had been spent for that task up to 30 September 2018. Following observations are made in respect of this procurement work.



- (a) Although bids should be called from the contractors with EM 1 grade registration in Industry Development Authority for this air condition contract exceeding the construction estimated amount of Rs.60 million as per supplement 9 related to section 5.3.5 of Government Procurement Guideline 2006, it had been informed that it could be applied by suppliers/applicants those who having the qualification of EM 2 or over according to the paper advertisement published on 07 June 2017.
- (b) According to the awarding letter dated on 27 November 2017, the relevant task should be completed within 180 days from the day mentioned on it, even primary works had not been completed though it was expired 283 days by August 2018.

### **6.3.2 Delayed Projects**

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The contract for the construction of ground reservoir, pump, and security room of Pasikuda Water Supply Projects and site works that should be completed on 08 June 2016 by commencing on 10 February 2016 had been assigned to a private institute on 02 March 2016 to a contract amount of Rs. 22,258,780. The final bill related to this contract had not been presented even by the audited date and the recommendations of the completion of works had not been given. Although this contract that should be completed by 119 days was delayed more than 2 years by this time, constructions had not been completed. Further, even the performance bond presented for the contract had been expired.

### **6.4 Budgetary Control**

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As variances ranging from 25 per cent to 405 per cent between the estimated and the actual expenditure were observed in 19 Expenditure Objects in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **6.5 Tabling of Annual Reports**

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As per Section 6.5.3 of Public Enterprises Circular No: PED/12 on 02 June 2003, the Annual Report of 2016 of the Authority had not been tabled in the Parliament up to 10 September 2018.

### **6.6 Unsolved Audit Paragraphs**

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Following observations are made.

- (a) The following observations are made relating to the construction of the Thoraiadi Jetty in Kalpitiya and for the supply of granite, gravel and ABC for applying tar nearby the Wannimundalama Lagoon.
- (i) A sum of Rs.824,000 had been incurred more than the estimated amount on purchasing 1648 cubes of granite on an excessive price an external person instead of the supplier selected to supply granite on the discretion of the Project Director, under the Shopping Method and that amount had not been recovered even up to 31 December of the year under review.

- (ii) Action had not been taken to recover a sum of Rs.2,549,000 overpaid on making payments considering that materials were supplied 4 cubes each, despite the capacity of the Tipper Vehicle that had been mentioned as being deployed for the supply of granite, gravel and ABC to the Kalpitiya Site being 3 cubes.
  - (iii) Payments had been made by the Authority for the value of the materials not physically accepted as 1648 cubes of granite, 368 cubes of ABC and 40 cubes of gravel, being a sum of Rs. 10,196,000.
- (b) A sum of Rs. 11,089,228 overpaid for the repair activities carried out in the Kataragama Holiday Resort had not been recovered from the officers responsible up to date.
- (c) A sum of Rs. 3,226,950 had been paid for 941.7 hours based on three letters furnished by the suppliers that dozers were supplied for the construction activities of the Mohottuwarama Jetty in Kalpitiya. However, these payments had been made without noting the working hours by reading the meters daily that the service of these dozers were obtained and without getting certified those Reports on Working Hours by an officer of the Authority. However, the Supervisor had certified in the above three letters that the service of the tractors was satisfactorily obtained.
- (d) A sum of Rs. 2,659,875 had been spent by the Authority to purchase 55 sofa chairs without evaluating the requirement. Even though limited quotations had been called to purchase these chairs, quotations had not been obtained from the Institution which supplied the prototype chair. Fifty per cent of the total supply value had been paid as Advances in purchasing chairs contrary to the Guideline 5.4.4 of the Government Procurement Guidelines and even a fruitless expenditure amounting to Rs. 211,000 had been incurred for the transportation of the chairs in several instances. Moreover, 03 chairs valued at Rs. 159,803 had been misplaced.
- (e) Action had not been taken to recover the sum of Rs. 3,780,253 to the Authority that had been overpaid to the officers from the year 2009 to the year 2011 due to making payments of the salaries and allowances by categorizing the Kalpitiya Integrated Tourist Development Project as a project that had exceeded US\$ 30 million even up to 31 December of the year under review.
- (f) It was observed in the audit that water had retained in the drainage system due to not carrying out constructions considering the geographical aspects of the relevant land, in physically examining the construction of the rainwater Drainage System in the Pasikuda Tourist Resort Project and it was observed in audit that a sum of Rs.3,792,420 had been overpaid to the contractor in comparing the actual measurement sheets calculated, with the amounts of payment in the bills.
- (g) A sum of Rs.699,300 had been overpaid relating to the designing of the Web Site for the promotion of “One Stop” investments of the Authority and that amount had not been recovered up to the end of the year under review.

- (h) The labour contract of the implementation of the Bentota Sewage System had been handed over to a private institution from the year 2009 to 31 December of the year under review without the procurement procedure, contrary to the recommendations for awarding contracts in Paragraph 8 of the National procurement Agencies Circular dated 25 January 2006.
- (i) The contractor had been selected without following the procurement procedure by fraudulently preparing the Cost Estimate of carpeting the Entrance Road stretching 1.126 kilometers in the National Holiday Resort in the Pasikuda Tourist Zone, for 04 Phases and a sum of Rs.22,013,564 had been overpaid to the contractor for constructions. This amount had not been recovered up to 31 December of the year under review.

**7. Systems and Controls**

Deficiencies in systems and controls observed 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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(a) Operating Control	<ul style="list-style-type: none"> <li>(i) Development programmes had not been done in compliance with the Action Plan of the Authority.</li> <li>(ii) An arrangement for reporting on physical progress had not been prepared.</li> <li>(iii) A black list register had not been maintained for the contractors who evade the procurement works.</li> <li>(iv) The rational approaches had not been followed when preparing estimates for procurements.</li> <li>(v) Certificates of warranties had not been taken from suppliers properly.</li> </ul>
(b) Project Control	<ul style="list-style-type: none"> <li>(i) Payments had been done without checking the work done reports when supervision and recommending payments and approving in implementing projects.</li> <li>(ii) Contract register had not been maintained.</li> </ul>

- (c) Asset Management
  - (i) Asset registers had not been maintained up to date.
  - (ii) Action had not been taken to vest the ownership of the assets.
- (d) Accounts Receivable and Payable Control
  - Action had not been taken to settle the balances of receivable and payable.
- (e) Accounting
  - (i) There were weaknesses when following some Sri Lanka Public Sector Accounting Standards.
  - (ii) Non-disclosure of some accounting policies
  - (iii) Keeping accounts had been done without having source documents to account the capital assets