

Tourism Development Fund – 2018

Qualified Opinion

The audit of the financial statements of the Tourism Development Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Tourism Development Fund as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.1 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.2 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.3 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.4 Financial Statements

1.4.1 Internal Control over the Preparation of Financial Statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5 Audit Observations

The following observations are made.

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) In terms of 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 Fund. Nevertheless, according to the information made available by the Department of Immigration and Emigration during the year 2018,	It is agreed with the observations and even though the Merchant Shipping Secretariat had held several discussions with the officers in this connection, no response had been received up to now. Moreover, no response was received as yet in respect of the written requests made to the Merchant Shipping Secretariat by the Director General requesting the income receivable to the	A levy should be charged from every ticket issued in respect of a passenger embarking a ship leaving Sri Lanka in terms of Sub-section 2(b) of the Act.

income of embarkation levy Authority as pointed out by the totalling Rs.23,561,347 Audit Report of the year 2017. receivable to the Fund from 87,631 passengers who had left, at USD 1.67 each had not been charged.

- (b) According to the information made available by the Department of Immigration and Emigration, the number of Sri Lankans and foreigners over 02 years who had embarked on a flight leaving Sri Lanka in the year 2018 had been 3,922,439. Nevertheless, the number of passengers had been 3,783,078 as per the Embarkation Levy sheets, thus a difference of 139,361 passengers was observed. As such, an income of Rs.112,185,605 from embarkation levy had not been received to the Fund.
- It is agreed with the observations and the Civil Aviation Authority had held several discussions with the officers in this connection but no response had been received up to now. Moreover, no response was received as yet in respect of the written requests made to the Civil Aviation Authority by the Director Finance requesting the income receivable to the Authority as pointed out by the Audit Report of the year 2017.
- In terms of Sub-section of the Act, every airline ticket issued outside Sri Lanka to passengers over 02 years who will embark on a flight leaving Sri Lanka or in respect of every airline ticket issued in Sri Lanka to, persons leaving Sri Lanka, the equivalent thereof in Sri Lanka -rupees, calculated at such rate of exchange as may be determined by the Competent Authority with the approval of the Secretary to the Treasury.

2. Financial Review

2.1 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.4,318 million as compared with the corresponding income of Rs.3,933 million for the preceding year, thus indicating an improvement of Rs.385 million in the income of the year under review as compared with the preceding year. The increase in the Embarkation Levy income by Rs.446 million had been the main reason for the said improvement.