

## **Sri Lanka Tourism Development Authority - 2020**

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### **1. Financial Statements**

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#### **1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity 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(1) 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 and the Financial Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

Due to the effects of the matters described in Paragraph 1.5 of this report, I do not express an opinion on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

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My opinion is disclaimed based on the matters described in Paragraph 1.5 of this report.

I was unable to confirm or verify by alternative means, material items included in the statement of financial position, statement of financial performance and statement of changes in equity. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of financial performance and statement of changes in equity

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bureau or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority 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.

#### 1.4 Auditor's Responsibility in Auditing Financial Statements

My responsibility is to conduct an audit of the Authority's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

#### 1.5 Audit Observations on the preparation of Financial Statements

##### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) Although, intangible assets should be shown on the face of the statement of financial position as a line item in terms of the Standard No: 01, computer software valued at Rs.14,738,987 had been shown under property, plant and equipment value of the financial statements. Even though, assets and liabilities should not be offset each other as per the Standard, bank overdraft of Rs.36,672,767 had been set off against the cash balance and net value had been shown in the financial statements.	It is agreed with the query and actions will be taken to present accurately in preparing the financial statements in the future.	Intangible assets should be shown on the face of the statement of financial position as a line item and assets and liabilities should not be offset each other in accordance with the Standard No. 01
(b) There were 6 legal cases filed by the Authority and 18 legal cases filed against	It is agreed with the audit query and due to the non-receipt of information	Necessary disclosures should be made in the financial statements for

the Authority as at the end of the year under review. However, a summarised detail about the nature of the contingent liability, if it is practical, estimate of the financial impact of it, time of payment and possibility of the reimbursement had not been disclosed in the financial statements as per the Standard No.08.

about legal activities to the finance division, disclosures could not be made. However, after obtaining necessary information from the legal division, actions will be taken to rectify the accounts in the future.

the contingent liabilities in accordance with the Standard No.08.

### 1.5.2 Accounting Deficiencies

The following observations are made.

#### Audit Observation

#### Comments of the Management

#### Recommendation

(a) Carrying value of the development properties amounting to Rs.214,594,528 as at the end of the year under review had been shown as intangible assets in the statement of financial position.

Answer had not been given.

Carrying value of the development properties should be separately shown in the statement of financial position.

(b) Although land extent of 1732 acres had been vested for Dedduwa Tourism Development Projects by paying Rs.173,159,909, Tourism Development Projects had not been commenced there even as at 30 October 2021. Even though, land vesting certificates had been given by the Divisional Secretariat's Office **by the year 2020**, actions had not been taken to record those lands in the accounts as the assets of the Authority. Further, Authority has not maintained a register for all the lands of which the ownership was received by

During the time of preparing the financial statements for the year 2020, confirmed information about values of the lands in order to record in the books had not been received to the financial division. However, actions will be taken to do the needful in the future.

Acquired lands should be recorded in the books of accounts as assets and a register for lands should be maintained.

way of vesting, acquisition or government grant nevertheless, the lands belongs to the Authority which was shown in the financial statements was amounted to Rs.1,618 million.

(c) A sum of Rs.22,516,037 which had been given for the programs executed by each provincial councils from the year 2016 in view of providing facilities required for the tourists had been recorded in the books of accounts as work-in-progress instead of recognising as the expenses of the year incurred.

Details of work completions as mentioned in the query had not been submitted to the finance division by relevant divisions at the time of preparing the accounts for the payments. However, it is agreed to prepare the required reports after obtaining those information.

As Authority does not receive the ownership, it should be recognised as expenses of the year incurred.

### 1.5.3 Unreconciled Accounts

Following observations are made.

Item	as per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
-----	----- Rs.	----- Rs.	-----	-----	-----
<b>(a)Accounts Receivables</b>					
(i) Sri Lanka Tourism Promotion Bureau	108,336,568	0	108,336,568	Actions will be taken to reconcile these balances.	Actions should be taken to reconcile the balances.
(ii) Sri Lanka Institute of Tourism and Hotel Management	8,782,635	108,336,570	99,533,935	Actions will be taken to reconcile these balances.	-Do-

(iii) Sri Lanka Conventi on Bureau	263,223	0	263,223	Actions will be taken to reconcile these balances.	-Do-
(iv) Tourism Develop ment Fund	3,975,260	4,675,168	699,908	Actions will be taken to reconcile these balances.	-Do-
<b>(b) Accounts Payable</b>					
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(i) Sri Lanka Institute of Tourism and Hotel Managem ent	6,512,810	0	6,512,810	Actions will be taken to reconcile these balances.	Actions should be taken to reconcile the balances.
(ii) Tourism Develop ment Fund	703,607	470,864	232,743	Actions will be taken to reconcile these balances.	Actions should be taken to reconcile the balances.
(c ) Lands	1,803,501,357	1,803,072,529	428,828	Please submit a clarification on how the reconciliation was made.	Amount accounted as lands should be reconciled with the schedules.
(d) Trade Debtors	210,359,144	209,988,954	370,190	It is agreed with the query and actions will be taken to rectify.	Amount accounted should be reconciled with the schedules.
(e) Other Income	1,369,492	1,101,349	268,143	It is agreed with the query and actions will be taken to rectify.	-Do-

#### 1.5.4 Documentary Evidences not made available for Audit

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 Following observations are made.

<b>Item Available</b>	<b>Amount Rs. (Million)</b>	<b>Evidence not Furnished</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) Work-in - progress	120.8	-Expenditure Bills  -Source Documents	Please consider that these information can be obtained from the Domestic Tourism ( DT & CR) Division.  Answer has not been given.	Required documents and files should be maintained.  Source documents and detail schedules should be furnished.
(b) Development Cost	214.5	- Source Documents -Detail Schedules		
(c) Investment	54.6	-Investment Certificates	These balances have been forwarded to the Treasury for the approvals based on the approval from the Board in order to write off from the accounts.  Answer has not been given.	Source documents should be submitted.  Details of information should be furnished.
(d) Kalpitiya Equity	46.4	-Details of the Assets		
(e) Capital Reserve	(243.7)	-Detail schedules	These balances have been forwarded to the Treasury for the approvals based on the approval from the Board in order to write off from the accounts.	Detail Schedules should be furnished.

## 1.6 Accounts Receivable and Payable

Following observations are made.

### 1.6.1 Accounts Receivables

#### Audit Observation

#### Comments of the Management

#### Recommendation

(a) Balance of the trade debtors as at the end of the year under review was amounted to Rs.210,359,144. Out of it, debtor balance amounting to Rs.54,918,514 was outstanding for more than 4 years and debtor balance outstanding from 3 to 4 years was amounted to Rs.24,976,435. However, actions had not been taken to recover these debts.

It is agreed with the query and after discussing with the Resort Management Unit, necessary actions will be taken.

Actions should be taken to recover the outstanding debts.

(b) Actions had not been taken to recover the deposit receivable amounting to Rs.3,661,031 deposited from 1989 to 2007 for office rent in abroad even as at the end of the year under review.

Actions will be taken to write off from accounts subject to the Board approval as written evidences were not available for these balances.

Actions should be taken to write off from the accounts with the approval from the Ministry of Finance.

### 1.6.2 Accounts Payable

Following observations are made.

#### Audit Observation

#### Comments of the Management

#### Recommendation

(a) A foreign advance balance of Rs.333,694 outstanding for 11 years had not been settled even as at the end of the year under review.

Answer had not been given.

Actions should be taken to settle the advance balance.

(b) An amount of Rs,246,730,325 had to be

Unit cost of the sewage and waste water treatment plant

Payables should be settled.

recovered from 14 hotels belong to the sewage and waste water treatment plant which has been established at national holiday resort premises at Pasikudha and pay for a particular Company. This amount was outstanding from 2013 to end of the year under review and actions had not been taken to charge and then to pay for the related Company.

as agreed with M. S. Lakdiyatha Private Company is significantly higher and therefore, hoteliers of the national holiday resort, Pasikudha have continuously complained about unwillingness to pay the monthly bills. Therefore, after several discussions, the Authority has decided to appoint a consultant to evaluate the technical and financial feasibility with future recommendations for the sewage and waste water treatment plant. The consultation company has been selected by inviting national competitive bids and it has been offered. The draft report is in its final stage after conducting a situational analysis, technical and financial evaluation together with the several discussions held with all the parties by the consultant. Future actions will be taken after discussing with all the parties. After obtaining the Board approval, recommendations will be implemented. Due to the Covid 19 pandemic, country was locked down in 2020 and 2021 occasionally and therefore, this process was got delayed.



## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommen- dation
(a) The Tourism Act No. 38 of 2005			
(i) Section 6.1 (a) (b) of the Act	Proposed long term targets and four year plan for tourism development had not been prepared and furnished to the Minister.	Strategic plan prepared by the Ministry for 2017-2020 has been extended to 2020 as well.	Long term targets and four year plan for tourism development should be prepared.
(b) Section 26(3) of the Act.	Although, the regulations should be made regarding the tourism activities, commercial and other activities that can be carried out within a tourism development zone declared, such regulations had not been prepared for 11 tourism development zones so declared even as at 30 October 2021.	The tourism activities, commercial and other activities that can be carried out within a tourism development zone declared will be made based on the initial plan. There are a number of tourism development area projects which implement as such and a certain area has not been stated here.	Regulations should be made in accordance with the directions of the Act.
(b) Finance Act No.38 of 1971	An approval from the Ministry of Finance with the concurrence of the relevant minister had not been obtained in depositing an amount of Rs.1 billion in short term investments during the year under review.	Answer has not been given.	Necessary approvals should be taken in depositing money in the investments.

(d) Financial Regulations  
of the Democratic  
Socialist Republic of  
Sri Lanka.

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| (i) Financial<br>Regulation 396                          | Actions had not been taken in accordance with the financial regulations for the cheques unproduced for payments amounting to Rs.3,441, 809 in which time duration had not be identified. | A schedule of these unproduced cheques for payments has been given to you and actions will be taken in accordance with the financial regulations.  | Actions should be taken for the cheques unproduced for payments in accordance with the financial regulations.            |
| (ii) Financial Regulation<br>757                         | A board of survey had not been carried out in respect of library books valued at Rs. 1,880,781.  | Although, the ownership of these library books belongs to the Authority as per the books, physical usage of these books is held with the Sri Lanka Institute of Tourism and Hotel Management. Therefore, initial measures have been taken to transfer the ownership for them as well by now. | A board of survey for library books should be conducted.   |
| (d) Treasury Circular No.<br>842 of 19 December<br>1978. | The register of Fixed Assets had not been maintained in an updated manner.   | The fixed asset register maintained by the Authority which has been prepared in a computerised form (MS-EXCELL) has been furnished to you and actions will be taken to prepare it as per the treasury circular.  | The register of fixed asset should be maintained in an updated manner in accordance with the directions of the circular. |

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review was a deficit of Rs.120,150,798 and the corresponding surplus for the preceding year was Rs.119,458,429. Accordingly, a deterioration of Rs.239,609,227 was observed in the operating results. The reduction in tourism development levy by Rs.223,970,698 and reduction in embarkation levy by Rs.54,465,786 during the year under review were the main reasons for this improvement.

## 3. Operational review

### 3.1 Identified Losses

#### Audit Observation

Although, the amount of work done related to the Calido Beach Park project, which was started in 2013 without a pre- feasibility study had been destroyed up to that, the advance of Rs.19,990,021 paid to the contractor until 2016 and work-in-progress expenses of Rs.1,247,206 which were aggregated to Rs.21,237,227 had been brought forward even as at the end of the year under review in the financial statements.

#### Comments of the Management Recommendation

The approval has been received to offset the total expenses for the capital expenditure of the tourism information centre as per the Board of Directors' decision on 09-02-2021. Above expenses was the remaining balance. It is stated that in terms of the decision made by the last Audit and Management Committee Meeting, above cost would be forwarded to the Board by the recommendations of a committee consisting of Director/human Resources. Due to the prevailing pandemic, submission of this observation report has got delayed. After submitting to the Board of Directors in the future, this cost will be taken into consideration.

Adjustments should be made in the accounts after obtaining the necessary approvals.

### 3.2 Management Inefficiencies

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Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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<p>(a) Only 10 sale outlets had been constructed spending an aggregate amount of Rs.2,864,289 as at 30 June 2021 relating to the project which commenced in February 2017 in order to construct 20 sale outlets along the street of Dunhinda water fall. Although, this project had been launched on the basis of reimbursement of the expenses made by the Pradeshiya Sabha, constructions had been stopped due to lack of money of the relevant Pradeshiya Sabha.</p>	<ul style="list-style-type: none"> <li>- The approval has been received by the Board decision in 2017 to construct 20 sale outlets along the street of Dunhinda water fall. The execution institute was the Pradeshiya Sabha at Soranathota.</li> <li>- The project was implemented by direct involvement of the Pradeshiya Sabha as the cost is high if it is based on the construction contract.</li> <li>- Payment for the constructions has been made on the reimbursement basis accordingly.</li> <li>- Inability to incur the expenses for the raw materials and construction cost was informed by the Pradeshiya Sabha due to lack of money as at 2018.07.11.</li> <li>- Therefore, relevant project has been delayed till 2021.03.23.</li> </ul>	<p>Project should be completed without delays.</p>
<p>(b) Although, an amount of Rs.6,771,807 had been paid to the North Western Provincial Council by the Authority as at 2016 for the construction of a tourism facility center (comfort center ) at Madurankuliya, the reimbursement was not made by the Authority for the bills</p>	<ul style="list-style-type: none"> <li>- in terms of a Board approval with an initial concurrence for a sum of Rs.15 million, this project has been commenced in 2015 and the total money settle up to now was amounted to Rs.6.7 million.</li> </ul>	<p>Project should be completed without delays.</p>

produced subsequently affirming that those bills were inaccurate. Consequently, project had been discontinued as at 31 December 2020

- Hence there were errors appeared in the invoices and quantitative bills certified by the engineers, money has not been paid.
- Except for the suggestions made at the initial stage of the project, technical officers have found out that the constructions have been made deviating from the main plan without prior approvals.
- The Pradeshिया Sabha has not responded for the request allowed for the clarifications and therefore, we have requested the assistance from the Ministry.

### 3.3 Operational Inefficiencies

#### Audit Observation

The aggregated loss of 04 national holiday resorts owned by the Authority for the preceding year was amounted to Rs.27,003,697 and the aggregated loss for the year under review was amounted to Rs.46,016,794. Accordingly, aggregated loss during the year under review had been improved by 70 per cent with compared to the preceding year. Although, 26 development activities had been planned during the year under review, only 11 activities had been implemented and out of those, the physical progress had been exceeded more than 75 per cent only in 8 activities.

#### Comments of the Management

- Procurement activities and consultations were got delayed.
  - Re-tendering was done due to the bids of non-responsive bidders.
  - The country was locked down occasionally in 2020 and 2021 due to the Covid 19 pandemic.
- With respect of the management decision made to decrease the cost of the works which are not necessary due to the limited budget and reduction in tourism development levy.

National holiday resorts should be directed in order to earn profits and development activities should be completed as planned.

### 3.4 Idle or Under Utilized Property, Plant and Equipment

Following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The land extent of 2055.87 acres belongs to 12 islands had been received as grants to the Authority during the years of 2010 and 2012 for tourism development activities. Out of the 12 islands, only the land extent of 206.74 acres belongs to 05 islands had been leased out during the years of 2010, 2011 and 2020 for 03 Companies. However, none of these companies commenced operations even as at 30 October 2021. Land extent of 1849.13 acres relating to the remaining 07 islands had not been utilized for tourism development activities till 30 October 2021 from the date of receipt as grants.</p>	<p>Out of 12 islands, 05 islands have been leased out as at 30 October 2021 and approvals have been received to lease out another 03 islands.</p>	<p>Lands received as grants should be utilised for tourism development activities.</p>
<p>(b) A land extent of 1,106 acres had been owned by the Authority since 1975 at the Yala, Palatupana tourism development zone and 69 acres had been leased out to 7 Companies in 2014 and to another Company in 2019, totalling 08 companies. However, only 04 Companies had been commenced operations even as at 30 October 2021.</p>	<p>Operations have been commenced by 02 Companies by now and constructions are being conducted by 02 Companies. The time period of one Company has been extended. The agreement was signed with another investor on 2020.09.30.</p>	<p>Actions should be taken to reinforce the Companies leased out in order to commence their operations.</p>
<p>(c) Out of the land extent of 510.086 acres acquired by the Authority in the years of 2011 and 2014 for Kuchchaveli tourism</p>	<p>New project proposals have been submitted by 04 investors and 137 acres have been reserved for the elephant conservation zone.</p>	<p>Actions should be taken to lease out the lands for tourism development activities.</p>

development project, only 49 acres had been leased out to 3 Companies. Out of those 3 Companies, one Company had been entered into agreements in May 2021. Another Company who had been entered into agreements in 2011 for a lease of 20 acres, had not been commenced constructions even as at 30 October 2021. Accordingly, land extent of 461.086 acres belongs to Kuchchaveli project had not been leased out for tourism development activities even as at 30 October 2021.

(d) Out of the 37 guest houses owned by the Authority, 09 guest houses had not been rented out ranging from a period of 5 months to 52 months and therefore, those properties were underutilized.

Although, tenders were called several time to select the prospective bidders, nonresponsive bids were received. Due to encroachments, land matters were arisen. Actions should be taken to utilize the guest houses.