

Sri Lanka Tourism Development Authority - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Tourism Development Authority (“Authority”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 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.

1.3 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 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 Authority 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 of the Authority.

1.4 Audit Scope

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 Authority'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 and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority'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 Authority 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 Authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority;

- Whether the Authority has performed according to its powers, functions and duties; and
- Whether the resources of the Authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Action had not been taken to review the useful life time and residual value of fully depreciated assets bearing cost of Rs.451,545,750 at the end of the year under review, although those assets were in usable condition as per the paragraph 65 of the Sri Lanka Public Sector Accounting Standard 07.	The review of useful life and residual values of said assets were done in year 2023 and the reviewing process was completed on February 2024. Therefore, as per the standard the accounting treatment can apply from year 2024 onwards.	Action should be taken to review the useful life time and residual value of fully depreciated assets.
(b) Contrary to the paragraph 69 of the Public Sector Accounting Standard 07, the depreciation had been calculated for the entire year in the year of purchase and the depreciation had not been calculated for the disposed year during the year under review.	Agreed. Accordingly, the relevant accounting adjustments will be done.	The relevant accounting adjustments should be done.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) A refundable deposit of Rs.10,721,715 furnished by lessees of the Authority had been deducted from the value of doubtful debts provision instead of being deducted from the balance of trade and other receivables prior to calculation the provision for doubtful debts. Further, credit balances amounting to Rs.5,196,786 included in the debtor accounts, had been deducted from debtors and receivable balance when calculating the provision for doubtful debts. Thereon, the provision for doubtful debts had been understated.	Relevant rectification in the trade debtors' ledgers will be made in the financial year 2024.	Bad debts provision, refundable deposit and credit balance of debtors should be shown in financial statements separately and should not be set off.

<p>(b) During the year, the central air conditioning system worth Rs.46,313,360 had been transferred from the electrical installation account to the building account and depreciated at a rate of 20 percent. However, no disclosure had been made in the accounts in this regard.</p>	<p>Agree with the observation</p>	<p>A disclosure should be made in the accounts in this regard.</p>
<p>(c) The several plots of land in Yala and Pasikuda Tourism Development Zones value of Rs.328,000,000 shown under the Property, Plant and Equipment had been reclassified as investment property in the year under review. Since this amount had been adjusted relevant accounts twice, the investment property was overstated and land was understated by this amount.</p>	<p>The relevant rectification was done within the financial year 2024.</p>	<p>Action should be taken to correct the accounts for the year 2024 as per the journal entry and avoid such errors.</p>
<p>(d) A total difference of Rs.325,675,000 was observed between the value of the lands as per Land Register and the balance of relevant investment property account relating to Lands of PA Rest Houses, Pasikudah and Bentota. Therefore the investment property and revaluation gain were understated by this amount.</p>	<p>The relevant rectification was done within the financial year 2024.</p>	<p>Action should be taken to correct the accounts for the year 2024 as per the journal entries and avoid such errors.</p>
<p>(e) Although the correct fixed deposit interest amounting of Rs.214,818,648 had been accounted as Rs.101,941,103 by decreasing an amount of Rs.112,877,545. Further, value of the fixed deposit had been accounted as Rs.1,250,000,000 instead of Rs.1,368,750,000 by decreasing an amount of Rs.118,750,000 and interest receivable had been accounted by decreasing Rs.255,736 in the accounts. Also, the income tax expense had also been increased as the withholding tax of Rs.13,135,042 on fixed deposit interest had not been accounted for.</p>	<p>A direction has been given to the bank to transfer the interest to the “Fund Management Saving Account” without reinvesting. However, the bank has not followed the direction and difference occurred thereon.</p>	<p>Action should be taken to correct the accounts for the year 2024 as per the bank confirmation and avoid such errors.</p>

1.5.3 Un-reconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Receivable from Sri Lanka Tourism Promotion Bureau	42,104,132	38,473,520	3,630,612	These differences are being reconciling and rectification will be done in the books of accounts accordingly.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.
(b) Receivables From Sri Lanka Institute of Tourism And Hotel Management	9,957,640	-	9,957,640		
(c) Payables to Sri Lanka Institute of Tourism And Hotel Management	6,512,810	243,528,033	237,015,223		
(d) Receivables From Tourism Development Fund	408,683,267	342,574,074	66,109,193	This estimate error will be reversed in the financial year 2024.	

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Trade debtors totaling to Rs.70,008,231 which was 25 per cent of total trade debtors as at the end of the year under review, had not been recovered for more than 03 years period.	Director General has appointed a committee consisting of Director financial management, Legal, development and other special employees to collect the dues.	Action should be taken to recover the debtors within the credit period and a surcharge should be imposed for overdue debtors.
(b) Sundry debtors amounting to Rs.5,668,578 which was 91 per cent of the total sundry debtors as at the end of the year under review, had not been recovered for more than 04 years period. Further, there was an	Agree with the observation and will take necessary action regarding these balances.	Action should be taken to recover the debtors within the credit period and a surcharge should be

	unsettled opening balance of Rs.559,961 in sundry debtors.		imposed for overdue debtors.
(c)	The Ministry of tourism had agreed to reimburse the financial contribution for the "Tuk Tuk Program" of the Authority for three-wheeler drivers to provide transportation facilities to foreign tourists. However, an amount of Rs.13,227,648 incurred in the years 2018 and 2019 had not been recovered even as at the end of the year under review.	we request to relevant approval has been taken to write off that amount from the SLTDA books accounts indicated for the training programs.	Actions should be taken to recover/write off the balance in the year 2024.
(d)	There was a cheque amounting to Rs.200,000 returned in 2019 received from a holiday resort had been remained as a returned cheque in accounts without creating the debtor balance and no action had been taken to recover that amount even at the end of year under review.	Legal actions have been taken in this regard.	Actions should be taken to restate the debtor balance and recover early.
(e)	Aggregate values of arrears in rental income due from 34 guest houses as at the end of the year under review was Rs.29,831,815. Out of which the arrears rental income over 4 years was Rs.10,167,445 or 34 per cent from total arrears and the recovery process was not in a satisfactory level. Further action had not been taken to lease out 07 guest houses which had been vacant for more than 04 years to date.	No Comments	Action should be taken to recover the rent income arrears early.
(f)	Receivable balance totaling to Rs.989,826 from Bentota shops which were closed as at the end of the year under review, had not been recovered for more than 07 years period.	As per the recommendation of the Debt Collection Committee, actions will be taken to write off debtor balances from the relevant account following the proper approval procedure.	Action should be taken to recover the debtor balance early.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Action had not been taken to settle the balance payable to service providers on PCR and insurance amounting to Rs.179,654,720 to date. Further, no age analysis had been received on the above balance.	Please note that there is not a payable amount to the service providers and it is not practical to prepare an Age Analysis of this "PCR & Insurance payable"	Actions should be taken to clear the payable amount and treat this as an income.

ledger account considering the nature of transactions. Hence do not agree with your observation.

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| (b) | An amount of Rs.67,195,229 which was payable in relation to the water supply at Pasikuda resort had not been settled even as at the end of year under review. Further, no age analysis had been received on the above balance. | This balance is being reconciled currently and will do the rectification within the financial year 2024. | The balance should be reconciled and do the ratification early. |
| (c) | Retention money amounting to Rs.9,915,544 had not been settled for more than 05 years period. | Those balances are relevant to the contracts which have been stopped due to various reasons. | A review should be done to find out the reasons for stopped contracts and if they couldn't be started, action should be taken to write off them and taken as an income. |

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Tourism Act No. 38 of 2005			
(i) Section 6.1 (a) and (b)	Proposed long term targets and four year plan for the period of 2020 to 2024 for tourism development had not been prepared and furnished to the Minister.	No Comments	Action should be taken as per Tourism Act.
(ii) Section 26(3)	Although, actions had been initiated for the preparation of master plans related to the tourism zones identified, regulations had not been made regarding the tourism activities, commercial and other activities that can be carried out within those zones declared even as at the	The delay in carrying out this task is mainly due to the lack of internal resources and we are trying to obtain the assistance from ADB to carry out this task, where we are looking at developing the detailed regulations	Regulations should be made regarding the tourism activities, commercial and other activities that can be carried out within those zones declared.

end of the year under review. and guidelines for 5 zones with the assistance of ADB as a pilot project. We await the response from ADB on this matter to proceed.

- (iii) Section 48(4)
- Although the enforcement unit of the Authority proposed to take legal actions against 504 no of the unregistered entities identified in the period from August 2018 to July 2022, legal actions had not been taken even as at the end of the year under review.

The organization is now ready to proceed with enforcement measures, pending the collection of necessary evidence. Even over the last 2½ years, Authority has been prevented of taking meaningful action mainly as a result of government circulars and following established procurement procedures.

Legal action should be taken against the unregistered entities.
 - Out of the sample of 106 no of tourist hotels and restaurants in Nuwaraeliya area, 66 no of entities that is 62 percent had not been registered under the Authority. Though, there were only 81 no of actual registered tourist entities, there had been around more than thousands of tourist entities who were registered in foreign websites.

Authority requested assistance from the Asian Development Bank (ADB) to establish a special unit over a three-year period to mitigate the informal sector's impact on the formal sector. However, apart from ad-hoc responses, even the legal department lacks the necessary capacity to handle the task effectively. Furthermore, Authority has delegated certain responsibilities to the tourist police to manage activities within the informal sector.

Necessary action should be taken to register the entities catering to tourists.

(b) Operational
Manual for State
Owned Enterprises
(SOE) dated 16
November 2021

- (i) Paragraph 2.3 All SOEs are required to adopt their own Administrative and Financial Manuals in line with the relevant provisions of this Manual and should be approved by the Board of Directors. However, no Administrative and Financial Manuals had been prepared and approved by the Authority to date. Respective Departmental Consultancy Procurement Committee has been appointed for Financial Manual and presently at document evaluation stage. Consultancy for Administrative manual to be recalled. Early action should be taken to prepare the two manuals.
- (ii) Paragraph 3.4 The Authority had not prepared a succession plan to date. While the identification of successors is determined by the Division's Head and top management based on performance, this process is not officially documented or communicated. A succession plan should be prepared.
- (c) Financial Regulation 371(2) (b) amended by the Circular No.01/2020 dated 28 August 2020 by Ministry of Finance “Ad hoc” sub imprest totalling to Rs.7,571,560 in 27 occasions had been given by the Authority to the staff grade officers during 2023 exceeding the limit of Rs.100,000 Further, an ad hoc sub imprest amounting to Rs.2,432,000 which had been obtained for a training programme of 960 Nos. of Safari jeep drivers on 06 November 2023, had not been settled even to the date. Though the original bills lack credibility, the Finance Division is in discussions, and the remaining 50 percent has not been released yet. Sub imprest should not be released more than Rs.100,000 without proper approval. Settlements should be done only when there are original and reliable bills and invoices.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.751,130,743 and the corresponding surplus in the preceding year amounted to Rs.579,760,623. Therefore, an improvement amounting to Rs.171,370,120 of the financial result was observed. The main reasons for the improvement are the increase in Embarkation Levy Revenue by Rs.247,812,538 and increase in Tourism Development Levy revenue by Rs.149,291,525.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
There were 35 acres lands and 16.8 acres lands in Yala tourism development zone had been leased out to 7 companies in 2014 and in 2019 respectively. However, only 2 companies out of 7 leased companies were engaged in operational activities at the end of the year under review. In this situation the Authority had taken litigation action against these non operating companies regarding non-operating activities, arrears in lease rentals and termination of the lease agreement. As well the lessee company also had filed case against to the Authority regarding the termination of agreements. Without taking Attorney General's advice regarding all these cases, the services of private lawyers had been taken and paid a sum of Rs.3,475,000 as legal fees in the year 2021 and 2022.	Three of these investors have already started hotel projects and are in operations. One company expects to be commenced in Q3 of 2024. One of the other two investors has completed 30% of the construction work with almost no progress in the last 3 years. The Authority had recommenced obtaining fresh approvals for new designs through the Investor Relations Unit (IRU) of the Authority. Private legal services for the court case were obtained with the approval of the Authority Board of Directors. Also, the Authority has signed a new lease with the Cabinet approved investor in October 2020, based on the advice given by the appointed private lawyers.	Operations of the projects should be closely monitored and Attorney General's advice should be obtained regarding all these cases.

3.2 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) Although 05 National Holiday Resorts owned by the Authority had incurred losses for the year under review and the preceding year amounting to Rs.50,067,245 and Rs.51,269,048 respectively, the Authority had not paid sufficient attention to minimize the	The Resort Management Division has implement several measures such as a staff shuffle aimed at improving productivity and efficiency, changing of menus to cater to customer	Action should be taken to run the National Holiday Resorts in a profitable way.

losses of those resorts.

preferences and increase sales, and the implementation of 5S was also initiated to ensure a cleaner and more organized work environment.

(b) Though the requested toners by the office aid assistant of Chairperson’s office amounting to Rs.1,072,102 from the Sri Lanka Institute of Tourism and Hotel Management in 2020 had not been received an internal investigation had not been conducted on it even as at the end of the year under review. In spite of that, on 05 August 2021, the said office assistant and the office assistant attached to the Director General’s office had stolen photocopy papers and toners worth of Rs.1,234,540 from the stores. The laptop computer valued at Rs.198,500 which had newly purchased had been misplaced in the resort management department on 24 August 2022. Accordingly, it is observed that due to the lack of active intervention of the management regarding the initial complaints and the weaknesses of the internal control systems, an environment in which frauds continue to occur had been created in the Authority.

Regarding the stolen toners and photocopy papers incident took place at the Authority & SLTPB general stores, a disciplinary inquiry is already commenced at the Authority and ongoing. In addition, there is a pending case at Magistrate Court, Aluthkade.

Action should be taken to allocate an officer to review the CCTV system regularly and strengthen the internal control system. Further, actions should be taken based on the disciplinary inquiry.

After the incident, preventive actions were taken mainly, the CCTV system was strengthened and responsibilities were allocated, issued comprehensive guideline to the Security personnel.

Regarding the recent incident of misplacement of a laptop in the Resorts Management division on August 2022, a complaint has been lodged at the Kollupitiya Police and an internal investigation was carried out. The charge sheets had been issued for responsible officers based on negligence and commenced disciplinary inquiry.

3.3 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The enforcement unit of the Authority had identified 640 unregistered entities operating as tourism enterprises or tourism services during the period of August 2018 to July 2022 and out of them, only 20 entities had registered even as at 03 July 2022 according to the regulations enforced by the Authority.	While the enforcement unit has identified unregistered entities, several factors have contributed to the delay in taking legal actions. However, the organization is now in a position to proceed with enforcement measures,	Action should be taken against the unregistered entities.

The management had not made a sufficient evaluation of the performance of this unit and a sum of Rs.13,397,500 had been paid as allowances for the consultant, investigating officer and legal advisor of that unit from August 2018 to July 2022.

- (b) The Authority had entered into an agreement with a private company on 18 June 2011, to establish a sewage and waste water purification system for the hotels and related institutions within the Passikudah National Resort premises. Keeping the maintenance of the system, collecting fees from 14 hotels located in the premises and paying the amount so recovered to the above private company were the responsibilities of the Authority. The Authority had given the land of 118 perches required for the project. Though the collections and paying from 14 hotels to company is be with the Authority, uncollected balance was Rs.412,765,334 from the year 2013 up to date. However, the Authority had to be paid Rs.421,113,524 exceeding the receivable amount. Although an offer letter was issued to a joint venture in the private sector to get financial advice about the affordability to take over the system to the Authority at a cost of Rs.1,644,750 on 20 April 2021, a final conclusion had not been taken even by the end of the year under review.

except for the need to gather sufficient evidence.

The final report was received in 2023. Since the report did not support the taking over the plant by the Authority, the report findings were discussed at length internally and then with Lakdiyatha as well as all the hotel owners to reach a workable solution. As a result, final agreement was reached between all concerned parties, where the service provider Lakdiyatha offered a waiver of 38% from the total outstanding amount as at 31st January 2024 and requested SLTDA to make an immediate payment of Rs.70,000,000 from the adjusted balance for plant refurbishment work and a 3 year (36 month) period was offered to settle the remaining balance in equal monthly installments. Further, starting from February 2024, they offered to invoice for CSTP services as a fixed amount of Rs.1,300,000 per month + a variable cost of Rs. 75 per CBM, where hotels will be billed as per actuals. The Lakdiyatha will continue the services for the remaining contractual period of 09 years.

Accordingly, Rs. 70,000,000 payment was made to Lakdiyatha and agreed changes were incorporated

Action should be taken to come to a final conclusion early and minimize the losses to Authority.

into the existing agreement as an addendum. The legal team is working on incorporating the same terms into SLTDA's individual agreements with hotels as addendums to proceed.

(c) Though 510.086 acres of land situated at Kuchchaveli had been taken over by the Authority in 2011 and 2014 for tourism development projects, only 35 acres of these lands had been leased out to 2 companies in the year 2020 and 14 acres land had been leased out to another company in May 2021. However, there was only one company in operation out of the 3 leased companies as at the end of the year under review.

Apart from the 3 companies who have entered into lease agreements with the Authority as stated, the Authority also signed 3 more lease agreements with 3 new investors with a total of 79 acres allocated for these six investors. Apart from that, following the proper procedure, the necessary approvals have been obtained to give further 36 acres of land to 3 other investors. Currently, one investor is engaged in hotel operations, and although we have continued discussions with other 5 contracted investors to implement their projects. The main problem that arises here is the lack of water supply to the Kuchchaveli beach resort area. We have requested the National Water Supply and Drainage Board (NWSDB) for the same.

Action should be taken to attract capable investors for leasehold lands and commence operations early. Further, essential facilities should be provided for the investors to commence their projects early.

(d) The Authority had received 2056.73 acres of lands in 12 islands of Kalpitiya in 2010 and 2012 as free grants for tourism activities. Out of those 12 islands, only 668.69 acres of lands belonging to 10 islands had been leased out for 07 companies during the years of 2010, 2011, 2020 and 2022. However, none of those companies had commenced operations by the end of the year under review. Further, the Authority had failed to collect an

Projects got delayed due to investors not getting relevant approvals for water bungalows, an issue with fishing community, islands size not sufficient..etc. In May 2023, the SLTDA had signed 4 more lease agreements with 4 investors. However, due to infrastructure limitations and approval delays, the progress

Action should be taken to attract capable investors for leasehold islands, corporate with them for obtaining relevant approvals and commence operations early.

	amount of Rs.92,959,827 from seven lessees related to 10 leased islands in Kalpitiya from 2018 to 2024.	of the commenced projects even are slower than expected.	
(e)	Action had not been taken to take over the ownership of a land in Mannar to date, though a sum of Rs.61,000,000 had been paid in 2019 by the Authority.	This amount of Rs.61,000,000 was deposited with the DS Mannar Town for the purpose of starting the acquisition process of the land identified by the Authority to develop a theme resort in Mannar. By now Section 2 notice had been published and the tracing survey too had been completed. As per the request of the Secretary of the Ministry of Lands, the DS Mannar Town has provided further information on the way forward and this matter is ongoing, which we are closely following up.	Land acquisition process should be followed up and taken over the land early.
(f)	Action had not been taken to settle the advances paid more than 04 years ago on acquisition of land amounting to Rs.39,227,275 and construction of buildings amounting to Rs.12,264,582.	These advances are in the Tourism Zone Development Advance Account- 633. The Dedduwa Lake Resort project has been successfully concluded. However, a total of Rs.1,109,000 remains in this account as we are yet to receive confirmation letters from DS Bentota and CEA indicating the project's completion. Other ongoing projects cannot be capitalized until their completion. Once finalized, they can then be capitalized accordingly.	Action should be taken to settle the advances immediately after the given work completed.
(g)	The Authority and Urban Development Authority (UDA) had entered in to a Memorandum of Understanding (MOU) on 13 February 2019 for the preparation of master plans of 07 Nos. of tourism development zones within 18 months as per a cabinet decision made on 06 June 2018 at a total cost of Rs.39,151,500.	Although initially the work of all 7 zones were planned to be completed within a 18 month period, the progress got delayed due to Easter Sunday attacks, followed by COVID-19 pandemic and then the fuel/economic/electricity	Actions should be taken to prepare and finalize Tourism Development Master Plans early.

However, only two master plans for Ella and Arugambay had been prepared for the periods of 2020-2030 and 2021-2030 respectively as at date. An amount of Rs.18,400,000 had been paid for the preparation of 05 plans to UDA. Further, a definite time period against activities and goals had not been established in above plans and an inter-ministerial committee had not been appointed to date for this purpose. Thereon, the infrastructure facilities had not been developed and maintained in those tourism areas for a long time.

crisis in the country. Also in between, there were changes in the appointed UDA team working on this project. Now, most of these issues are resolved and we intend to complete the task through the UDA by mid-2025. We have also requested the UDA to clearly identify short term, medium term and long term actions for implementation in each TDMP. The main reasons for non-development of the infrastructure facilities in the said areas as per the TDMPs were the government restriction/hold on capital expenditure and the lack of funds/finances in most of the implementing organizations. Regarding the payments to the UDA, please note the payments are released only based on the work carried out.

- (h) Although Anuradhapura national holiday resort had been repaired recently, the useful life period of that building couldn't be guaranteed in audit, due to more water leakages in walls, using low quality bathroom fittings, damaged doors & ceiling etc. The maintenance of the resort had not been done properly due to lack of Multi duty technician from the year 2020. Further, a CCTV system and a generator had not been established in the resort even though there are 52 rooms available. Accordingly, a loss of Rs.8,321,156 had been incurred on the operation of the resort for the year ended 31 December 2023.

We have taken significant steps to address maintenance and quality issues gradually with the NHR-Anuradhapura resort. This includes informing the HR department multiple times about the need to recruit a multi duty technician to handle maintenance tasks efficiently. Additionally, we are in the process of hiring an outside party to carry out maintenance work, indicating our commitment to improving the overall maintenance standards.

Necessary steps should be taken to improve the quality of the resort and solve the maintenance issues.

3.4 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Registration of some hotels, restaurants, travel agencies, bungalows and guest houses had been completed in the year 2023 deviating specific guidelines and international best practices. Thereon, the tourists or guests who are utilizing those may face many problems due to not having standard and quality facilities in tourism related entities.	No Comments	Registration of hotels, restaurants, travel agencies, bungalows and guest houses should be done without deviating specific guidelines and international best practices.
(b) Although, the Bandarawela National Holiday Resort had been obtained the Registration Certificate under the Authority, it has not fulfilled the necessary requirements for registration. Further, this resort had not been maintained in a proper way. The cottages, kitchen, lobby of the main building children’s park and the garden had not been repaired for a long time. The furniture and equipment had also been damaged and had become unusable. This had created a bad image to the Authority and had made a loss of Rs.3,198,422 for the year under review.	Bandarawela National Holiday Resort obtained a Registration Certificate under the Sri Lanka Tourism Development Authority (SLTDA), it appears that certain essential requirements for registration have not yet fulfilled. Currently Resort Management Division (Trading Resorts) is in the process of obtaining the certification. As we have currently have obtained services from CECB (Central Engineering Consultancy Bureau) in order to uplift the standards by refurbishing the resorts.	Action should be taken to uplift the standard of the resort and make it as a profit making unit.
(c) Sufficient attention had not been incurred on the development and maintenance of necessary facilities in key points at Ella tourism zone. The facilities such as lightings and sanitary facilities had not been fulfilled in Rawana Ella area. Further, there was no sufficient seating facilities, sanitary facilities, phone charging unit for tourists and train timetable display at Ella Railway station.	No Comments	Action should be taken to improve the facilities in Ella Tourism Development Area.

3.5 Transactions with Contentious Nature
Audit Issue

Management Comment

Recommendation

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| (a) | <p>A land of 50 perches in Resort area nearby Yala National Park owned by the Authority had been granted to a private company to establish a Leopard Research Centre under public private partnership with the Board approval on free of charge during the year 2021. It was observed a conflict of interest in signing the agreement and method of selecting the private company was doubtful in audit.</p> | <p>It is true that the chairperson who signed the lease agreement for the said 'Leopard Research Centre' at that time was a related party to the private entity involved in the agreement. However, the initial discussions about this project started in 2017 and all required consents and approvals were obtained during 2017-2029 period, where the final approval of the board of directors was granted in October 2019. During the said period, the chairperson in question was not at all connected or a part of the Authority and therefore we believe that this should not be considered as a conflict of interest.</p> | <p>Action should be taken to avoid transactions with conflict of interest.</p> |
| (b) | <p>The authority of Director General of the Authority to sign in Registration/Renewal Certificates of tourism entities had been delegated to the Director (Standard and Quality Assurance) on 27 April 2023 contrary to the provisions in the Tourism Act No.38 of 2005.</p> | <p>Section 48(3) specifies the registration process with the authority and the issuance of licenses by the authority based on tourist enterprises classifications. Accordingly, the authority to issue licenses is vested in the board. Therefore, the board has delegated this authority to the Director SQA. It's worth noting that there is no provision in the Act empowering the Director General to delegate authority to the Director SQA. However, the Act also does not delineate the procedure for delegating the DG's powers.</p> | <p>It's better to obtain the Attorney General's opinion for this matter.</p> |
| (c) | <p>Board Secretary of the Authority had been outsourced from 05 November</p> | <p>As the Chairman of the Authority, I wish to inform</p> | <p>Action should be taken to prevent</p> |

2019 to the date of this report preventing conflict of interest and maintaining confidentiality. Ernst & Young had been appointment as Board Secretary from 05 November 2019 to 04 December 2023 at a cost of Rs.94,500 per meeting. However, Legal Inc had been appointed from 05 December 2023 to 04 March 2024 without following procurement procedure and had paid a sum of Rs.65,000 per meeting with the assistance of the Secretary to Chairman, a concept which had not been followed in previous assignment done by E&Y. Further, Legal Inc had been formally appointed from 01 March 2024 for one year at a cost of Rs.135,000 per meeting. It was too assisted by the Secretary to the Chairman. Action had not been taken to prevent conflict of interest & maintain confidentiality of the Authority without being intervened any staff member of the Authority in Board Secretarial Works in contrary to the Section 2.6 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021 issued by General Treasury.

you that the Secretary to the Chairman, has been appointed to assist LegalInc as she is competent, trustworthy and reliable to provide requested assistance.

conflict of interest & maintain confidentiality of the Authority without being intervened any staff member of the Authority in Board Secretarial Works in contrary to the Section 2.6 of Guidelines on Corporate Governance for State Owned Enterprises dated 16 November 2021 issued by General Treasury.

3.6 Idle or Underutilized Assets

	Audit Issue	Management Comment	Recommendation
(a)	9 guest houses out of the 37 guest houses owned by the Authority, had not been leased out for a period ranging from two to eight years, so the property remained underutilized.	No Comments	Action should be taken to utilize the investment properties effectively.
(b)	Although, a sum of Rs.173,159,909 had been paid on land acquisition for tourism development project in Dedduwa and the process had been completed as per Galle District Secretary's letter No.DPS/LND/03/BAN/General and dated 20 June 2017, tourism development projects had not been	Malaysian investor project was cancelled due to failure to fulfill the condition of then Prime Minister and Tourism Ministry to transfer Rs.500,000,000 to Sri Lanka in phase 1. Further, the Authority is continuously working on demarcation	Action should be taken to utilize the investment properties effectively.

	commenced there even by the end of the year under review.	clearance and avoid encroachment to attract investors.	
(c)	Bibila Rest house had been abandoned for more than 17 years, due to no action taken on encroachments and security of the premises. Thereon, a total rent income able to be received from the investor for the period from 02 November 2016 to 31 December 2023, amounting to Rs.10,462,466 and investment valued at Rs.40,000,000 had been lost by the Authority.	No Comments	Encroachment should be cleared and the security of the rest house should be guaranteed. Further, the rest house should be leased out properly or utilized effectively in a profitable way.
(d)	Ragala rest house which had been transferred to the Authority in 1993, had been leased out for a private party in 1998 at a monthly rent of Rs.5,167 and cumulative rent from 2001 which was not paid by the lessee amounting to Rs.697,546 had been written off as per the approval given by Board of Directors. In 2010, the premises had been encroached and the security of rest house was at a risk. Meanwhile, in 2022 a court order had been received to remove the encroachers. At the physical examination by audit on 23 November 2023, it was observed the encroachment had not still been cleared and the security of the rest house couldn't be guaranteed in audit.	No Comments	Encroachment should be cleared and the security of the rest house should be guaranteed. Further, the rest house should be leased out properly or utilized effectively in a profitable way.

3.7 Delay in Projects or Capital Work

	Audit Issue	Management Comment	Recommendation
(a)	The authority had planned to construct 20 eco-friendly stalls, 02 benches per stall, safety fence and a name board during 01 February 2017 to 15 December 2017 at a cost of Rs.7,488,133 under Dunhindha project. As at 22 January 2018, only 10 stalls and name board had been constructed at a cost of Rs.2,864,289 and the construction was abandoned. Again Authority had decided to construct 5 more stalls in the year 2021 under the	Due to lack of funds at Soranathota Pradesiya Sabha, the total project was held up after construction of 10 shops. Then the work held up for over one year with covid 19 pandemic. Later Uva Provincial Council agreed to undertake balance work under their supervision. Due to lack of Dollar all import goods and materials	Capital projects should be closely supervised and action should be taken to conduct capital projects in a cost effective manner.

	<p>prices were increase in the local market cost per room had been increased.</p>	
<p>(b) The Authority had planned to construct the Yala Entrance Gate and Resort office building at a cost of Rs.55,000,000 on 01 January 2021. It was unable to commenced due to not having prior approvals of the Department of Wild Life Conservation.</p>	<p>Hence this project was temporarily parked, as following the economic crisis in 2022, all CAPEX projects were put on hold by the government. Now we are planning to resume the project first with the entrance structure during 2024. The office building will be planned in 2025 after the entrance structure.</p>	<p>Action should be taken to follow up capital projects closely and complete in an effective manner.</p>
<p>(c) Renovation of National Holiday Resort Anuradhapura had been incurred a long period due to delay in bid evaluation for 07 months and delay in completion of woks for over one year. The total cost of this renovation was Rs.81,505,926 as at 31 December 2023. At the physical examination of this resort some cracks in the walls of drivers' accommodation were observed.</p>	<p>No Comments</p>	<p>Action should be taken to follow up capital projects closely and complete in an effective manner.</p>

3.8 Human Resource Management

Audit Issue	Management Comment	Recommendation
<p>An officer who had interdicted by the letter of Director General of the Authority dated 12 January 2023, had been reinstated from 30 March 2023 and paid arrears salaries fully as per a Board decision subject to issue a charge sheet and commence formal disciplinary action. However, it was noted that the formal disciplinary action had not been completed to date though it had left more than a year.</p>	<p>Considering the circumstances and actions taken regarding the formal disciplinary inquiry, it is observed that the inquiry has not been completed yet due to the requirements of following the formal procedures. However, we have acted promptly and accurately in all possible cases to ensure the inquiry is completed properly.</p>	<p>The disciplinary inquiry should be completed early.</p>