

Sri Lanka Tourism Development Authority – 2015

The audit of financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(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 the 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

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards - 07

In terms of Sri Lanka Public Sector Accounting Standard 07, if the property, plant and Equipment are revealed, all the property plant and equipment belonging to one category should be revealed. Nevertheless, only the land and the building where Head Office was located had been revealed at Rs.1,378 million in the year 2008 without being revalued all the lands and buildings of the Authority.

2.2.2 Accounting Policies

The policy to determine the tax rate to be revalued from lands and buildings given on long term and short terms lease basis had not been disclosed.

2.2.3 Lack of Evidence for audit

As the evidence indicated against each item of the following was not made available for audit, the could not be satisfactorily vouched or accepted in audit.

Item of Account	Value	Evidence not made available
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	Rs.	
Investments	55,540,267	Letters of confirmation
Debtors	125,539,987	Letters of confirmation
Fixed Assets	2,276,873,583	Title deeds, Register of assets
Amount paid to supply granite	1,067,580	Documents for the selection of supplier, invoices, particulars of transported vehicles, work done reports, goods receipts particulars

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Debtor balances remained unrecovered for more than 01 year and 3 years as at 31 December of the year under review amounted to Rs.5,979,605 and Rs.8,023,660 respectively.
- (b) A sum of Rs.17,225,705 receivable for the maintenance of Pasikuda Sewer Services remained unrecovered for the period of 01 to 03 years was unrecovered even by 31 December of the year under review.

- (c) A sum of Rs.4,429,752 receivable from Pasikuda Water Consumption debtors, remained outstanding for the period from 1 year to 3 years as at 31 December of the year under review had not been recovered even by 31 December of the year under review.
- (d) Out of the sum of Rs.190,566 payable to sundry creditors, the amount remained unrecovered for more than 3 years was Rs.146,063.

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

Instances of non-compliances observed in audit are given below.

Reference to laws, rules, regulations and management decisions	Non-compliance
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(a) Tourist Act No.38 of 2005	
(i) Sub - section 26(1) of Chapter iv	Rules determine tourist activities commercial and other activities to be carried out within a published and tourist development area had not been formulated.
(ii) Paragraph 3 of Chapter vii	Eventhough the quorum of a meeting of the Authority should be 5 members, even other wise determine by the Authority, such requirement had not been complied with in respect of certain Board papers.
(b) Declaration of assets and liabilities Act No.01 of 1975 as amended by Act No.74 of 1988.	Chairman and the Board of Directors should handover their statements of assets and liabilities every year to the Secretary to the Ministry and other staff officers to the Chairman of the Authority. Nevertheless, it had not been so done.
(c) Sub- section 29:1 of Chapter XLVIII of the Establishments Code Part II of the Democratic Socialist Republic of Sri Lanka	The disciplinary authority had not taken formal disciplinary action against the officers responsible for non-compliance with rules and regulations or discrepancies and misconduct revealed in the Auditor General's reports issued in the years 2013 and 2014, even by the end of the year under review.

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| (d) | Extra ordinary gazette No.1673/8 dated 28 September 2010 of the Democratic Socialist Republic of Sri Lanka. | Contrary to the authority vested in the Authority recommendation had been given to issue liquor Licenses to buffet cars operated in the two trains called wiseroiy I and II. |
| (e) | Guidelines Circular of 24 January 1996 issued by the Secretary to the President. | In leasing government lands, Lease agreement and the amount of tax should be revised once in 5 years, Action had not been taken in terms of this circular in respect of lands leased out by the Authority. |
| (f) | Sections 9.14.1 and 9.14.2 of the Public Enterprises Circular No.PED/12 of 02 June 2013. | Instead of paying telephone bills of entitled officers by the Authority a sum of Rs.390,460 had been paid as monthly communication allowance along with the salaries of officers in the year under review. |

2.5 Transactions not supported by sufficient authority

In terms of Section 12(4)(iii) of Chapter 1 of the Tourist Act No.38 of 2005, out of the interest on a loan of Rs.100 million given to a private hotel from a State Bank a sum of Rs.7,382,305 had been paid by the Authority without the approval of the relevant Minister.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2015 had been a surplus of Rs.308,312,524 as compared with the surplus of Rs.325,029,262 this indicating a deterioration of surplus by Rs.16,716,738 in the financial results as compared with the preceding year. Eventhough the deflection tax revenue had increased by Rs.26,428,493, decrease of other income by Rs.11,477,891 increase of employee remuneration by Rs.17,428,210 and incurring a loss of Rs.12,392,516 from resourt activities by Rs.12,392,516 had mainly attributed to this deterioration.

In analyzing the financial results of the year under review and the preceding four years, the financial results had improved continuously from the year 2011 to the year 2014, but it had dropped by 5 percent in the year under review as compared with the year 2014. In considering the Employees remuneration and the depreciation on non-current assets, the contribution of Rs.237,514,201 in the year 2011 had continuously improved up to Rs.442,960,183 in the year under review.'

3.2 Analytical Financial Review

The income of the Authority in the year under review amounted to Rs.545 million whereas it was Rs.546 million this indicating a decrease of 0.2 per cent as compared with the preceding year. Similarly, as compared with a sum of Rs.221 million spent for the Development of Tourism in the preceding year, a sum of Rs.236 million had been spent therein. Accordingly, an increase of 6.8 per cent was indicated.

3.3 Legal cases initiated against the Authority and by the Authority

The Authority had filed a case in the courts against 11 persons in respect of imisuse of government properties and a lessees had filed a case against the Authority asking for reliefs.

4. Operating Review

4.1 Performance

Objectives of the Authority as per Tours Act No.38 of 2005 are as follows.

- To develop Sri Lanka as a tourist and travel destination both in Sri Lanka and abroad.
- To advise the Minister in charge of the subject of Tourism on matters relating to the travel and tourism industry, within the policy formulated by the Cabinet of Ministers in relation to this sector.
- To provide guidance to the Sri Lanka Tourism Promotion Bureau to develop, promote and market Sri Lanka as a tourist and travel destination both in Sri Lanka and abroad.
- To provide guidance to the Sri Lanka Institute of Tourism and Hotel Management to undertake human resource training and development activities.
- To work towards the enhancement of the Tourism and travel sectors in order to secure a contribution for the expansion and development of Sri Lanka's economy.
- To develop and promote adequate attractive and efficient tourist services inclusive of the hospitality industry in a sustainable manner.
- To license and accredit tourist enterprises in order to develop enforce and maintain locally and internationally accepted standards in relation to the tourism industry and other related industries.
- To encourage persons to bodies of persons in the Private Sector to participate in the promotion of the tourism industry and the promotional and training activities connected with such industry.
- To do all such other acts as may be necessary or conducive to the attachment of all or any of the above objectives.

- (a) In the examination carried out in respect of achieving the above objectives during the year under review, evidence to ensure whether the following objectives had been achieved was not made available for audit.
- (i) Preparation of long term targets and 4 year plan and getting the cabinet approval, revision with the objectives of annual new long term targets and getting the cabinet approval therefor.
 - (ii) Formulation of rules in respect of matters specifically stated in the Act, improvement and enforcement of locally and internationally recognized standards in respect of tourist industry and related other industries and issuing permits and giving authority to tourist entrepreneurs to operate them.
 - (iii) Establishment of general or other boards to facilitate the achievement of objectives in the Act.
 - (iv) Running businesses for the supply of transport, facilities to tourists who visit attractive places in Sri Lanka.
 - (v) Registration of tourist entrepreneurs and Tourist Services and the regulation of prices, charges and rates recoverable from tourist services.
 - (vi) Establishment of a Board, names a Tourist consultants committee.
- (b) There were 4 tourist holiday resorts and 3 tourist resorts under the ownership and management of the Authority. There was a net surplus of Rs.1,529,201 in the year 2014 from those resorts but the net loss for the year under review amounted to Rs.12,392,516. In view of the excessive overhead expenditure a deficit of Rs.32,342,280 had incurred in 5 holiday resorts.
- (c) According to the annual action plan, out of the 82 activities expected to be implemented during the year, only 47 activities or 57 per cent had been implemented. It was observed that out of the projects commenced during the year 7 projects and 9 projects had spent less than 10 per cent and less than 50 per cent of the allocated money respectively. Accordingly, it was observed that the expected performance had not been achieved by 51 projects, against the allocated money. Further, even though a sum of Rs.749.31 million had been allocated under 6 strategies in the annual action plan for the implementation of projects only a sum of Rs.297.02 million had been spent during the year.

4.2 Management Activities

(a) Management of Lands and Properties

The following observations are made.

- (i) Out of the lands, 510 acres approximately in extent vested in the Authority from Kuchchaveli area in Trincomalee a few year ago, action had been taken to develop only even less than 50 acres by the end of the year under review.

- (ii) Out of the land 448.3 hectares in extent in the Yala Palatupana Wildlife area vested in the Authority for tourist activities only 26.8 hectares had been given to investors on lease basis by 31 December of the year under review.
 - (iii) A register for lands and properties, indicating the collection of transfer of deeds of properties and developments as a basic control system had not been maintained.
 - (iv) According to a sample test carried out by audit although the gazette notification had been issued to acquire 56 rest houses and 166 plots of land, 6495 in extent, only a part of them had been acquired by the end of the year under review.
- (b) Eventhough a sum of Rs.1,166,349 had been paid in respect of their pair of Holiday Resort in Nuwaraeliya a certificate to ensure whether repair works had been satisfactorily done had not been given. The audit test checks observed that repair works had not been carried out as per the agreement.
 - (c) Action had not been taken to acquire the land, 22 acres, 1 rood and 17.23 perches in extent in which Bandarawela Holiday Resort was located. Action had also not been taken to protect and inventories 200 trees with high values existed in the Resort premises.
 - (d) Eventhough a sum of Rs.65,104,138 had been paid to the Urban Development Authority to acquire a land, 11 acres, 3 roods and 13 perches in extent located in Sri Jayawardenapura Kotte in the year under review, action had not been taken to acquire the land to the Authority. Further, a sum of Rs.639,529 had been spent for the security of this land during the year under review.

4.3 Transactions of Contentious Nature

A sum of Rs.5,738,075 had been paid on 03 September 2014 to the Sri Lanka locomotion welfare society for the implementation of tourist promotion program by the Authority of this money, a sum of Rs.4,768,982 had been spent during the period from 03 to 09 September 2014 for the supply of foods to the selected groups in the Balangoda, Dehiattakandiya, Padiyathalawa, Hasalaka, Lunugamvehera and Nuwaraeliya areas and to provide facilities to staff and the balance money had been deposited in a account belonging to the society. This money had not been given to the Authority even up to 31 December of the year under review.

4.4 Utilisation of Funds

According to the analysis of monthly financial statements of Authority, the average working capital requirement had been Rs.170 million. Nevertheless, exceeding that requirement, surplus cash of 599 million had been retained in the Fund Management Account during the whole year without getting a maximum investment.

4.5 Build up a fund for the provision for employee gratuities

Out of the provision of Rs.52,288,318 made for the employees gratuities, only a sum of Rs.19,768,441 had been invested.

4.6 Apparent Discrepancies

The following observations are made.

- (a) Audit observations are made construction of Thoraiadi Jetty in Kalpitiya and the Supply of Granite, gravels and A.B.C for laying of asphalt near wannimundama lagoon are given below.
 - (i) Instead of the supplier for the supply of granite under the shopping method 1648 cubes of granite had been purchased from another person selected by the Project Director on his own discretion and as a result the Authority had to pay an additional amount of Rs.824,000. It had not been recovered even by 31 December of the year under review.
 - (ii) Eventhough the capacity of a tipper used for the transport of rubble, gravels and A.B.C at Kalpitiya worksite had been 3 cubes payments had been made in considering as material had been supplied at 4 cubes and as such overpayment made thereon amounted to Rs.2,549,000. Action had not been taken to recover same.
 - (iii) The Authority had paid a sum of Rs.10,196,000 for materials consisting of 1648 cubes of granite, 368 cubes of ABC and 40 cubes of gravels which had not been physically taken over.
- (b) Action had not been taken to recover an over payment of Rs.11,089,228 made to for the repairs carried out in the Katharagama Tourist Holiday Resort from the responsible officers and to take disciplinary action against them even up to 31 December of the year under review.
- (c) A sum of Rs.3,226,950 for 941.7 hours had been paid on the basis of 3 letters presented by suppliers stating that dozers had been supplied for the construction work of Kalpitiya Mohottuwarama Jetty. However, these payments had been made without being certified by an officer of the Authority stating that work hours had been recorded by met reading of daily work hours and certifying that the service of these dozers had been obtained. However, the work project work supervisor had certified that the service had been satisfactorily obtained on the above 3 letters.
- (d) The Resort Manager of Benthota had obtained 65 ½ days of no pay leave in the years 2012 and 2013 without being recorded and a sum of Rs.80,960 as unvalued leave allowances for the above 2 years without informing the Management.
- (e) Contrary to the rules and regulations, the Manager of Benthota Resort had paid a total sum of Rs.608,226 consisting of vehicle hire charges of Rs.480,000 and for fuel an outing to Rs.128,226 to 2 institutions for a period of one year for a vehicle with a fake number plate.

- (f) Salaries and allowances totalling Rs.1,879,478 had been paid to 9 Assistant Directors during the year under review who had been recruited to the Authority without qualifications approved by the Department of Management Services, without being complied with the Establishments Code of the Democratic Socialist Republic of Sri Lanka, directors included in the gazette notification No.1589/30 dated 20 February 2009 containing rules of the Public Service Commission procedures and the election rules stated in the letter No.PE/2015/04 dated 29 June 2015 issued by the Commissioner of Elections.

4.7 Idle and Underutilized Assets

The following observations are made.

- (a) Of the land, about 94 acres in extent which had been vested in the Ceylon Tourist Board in the year 1969 for the tourist industry and subsequently vested in the Tourist Development Authority, only about 50 acres had been utilized up to 31 December of the year under review. Accordingly, more than 40 acres had been idle for more than 46 years.
- (b) Building space of about 2880 square feet located in the Benthota National Holiday Resort premises had been idle since 2006 to the end of the year under review without being used for any economic activity.

4.8 Uneconomic Transactions

The following observations are made.

- (a) A sum of Rs.7,483,180 had been spent for the Security Services since 3 years provided to 7 Holiday Resorts in Bibila, Ragala, Horowpathana, Mahiyaganaya, Weeraketiya, Baththuluoya and Nikaweratiya areas. But action had not been taken to use them effectively and to earn some income.
- (b) The Authority had spent a sum of Rs.2,659,875 for the purchase of 55 sofa chairs without being evaluated the requirements. Eventhough the limited quotations had been called for the purchase of these chairs quotations had not been obtained from the institution which had supplied the model chair. Contrary to the Section 5.4.4 of the Procurement Guidelines advances of 50 per cent of the total value of supply had been paid in purchasing those items. A fruitless expenditure of Rs.211,000 had been incurred for the transport of chairs. Similarly, 3 chairs valued at Rs.159,803 had been misplaced.

4.9 Identified Losses

The following observations are made.

- (a) As the harvest had not been reaped from about 600 coconut and king coconut trees planted in the Benthota National Holiday Resort Land continuously for 6 months from July 2013, the Authority had sustained a loss of over Rs.100,000. Action had

not been taken to identify the officers responsible for this loss and recover the same even up to 31 December of the year under review.

- (b) As the salaries and allowances had been paid to officers, classified a project valued at more than 30 US Dollars as Kalpitiya Integrated Tourist Development Project, the overpaid amount of Rs.3,780,252 in the years 2009 to 2011 had not been recovered.
- (c) The cultural centre building in Colombo (Dutch Hospital) belonging to the Authority had been vested in the Urban Development Authority less than the depreciated value by Rs.7,274,715.

4.10 Procurement and Contract Administration

The following observations are made.

- (a) Audit observations relating to the construction of the rain water flowing drainage system in the Pasikuda Tourist Resort Project are given below.
 - (i) The director of the Planning and Development Division of the Authority was acting as the Chairman of the Technical Evaluation Committee of this project and he had certified payment vouchers valued at Rs.31,394,813 relating to the project checking and certification of measurement reports and bills and preparation vouchers had been done by the Resort Officer who had been working under the Director on contract basis. Accordingly the professional competence and independence of the officers on the performance of relevant duties could not be satisfied in audit.
 - (ii) At the physical verification of construction works by auditors it was observed that water was remained in the drainage system as the construction works had not been done in considering the land slope. It was observed that an overpayment of Rs.3,792,420 had been made to the contractor as compared the actual measurement reports with the rates stated in the bills.
- (b) The following observations are made in respect of the creation of the website for the “one stop” investment promotions of the Authority.
 - (i) There was no pre plan or estimate for the invention of this web site and without entering into a written agreement with the selected contractor, only the relevant purpose had been informed in writing.
 - (ii) A performance had not been obtained for the contract.
 - (iii) An over payment of Rs.699,300 had been paid as at 06 January 2014 relating to this contract.
- (c) Contrary to the Paragraph 8 of the circular of the National Procurement Agency the labour contract for the operation of the Benthota Sewerage System from the year 2009 to 31 December of the year under review had been awarded to a private institution deviating the procurement procedure and a sum of Rs.28,740,018 had been paid.

- (d) For the carpeting of access road 1.126 km in length in the National Holiday Resort within the Pasikuda Tourist Zone, estimates had been prepared spuriously in 4 stages and the contractor had been selected without following the Procurement Procedure. In making payments for the construction work an overpayment of Rs.22,013,564 had been made.

4.11 Delayed Projects

The following observations are made in respect of Kalpitiya Integrated Tourist Project with an estimated cost of Rs.5,521 million for the construction on of resorts with additional 4000 rooms and the provision of infran structure facilities.

- (a) Eventhough the approval of the Cabinet of Ministers and the Department of National Planning of the General Treasury in the year 2008 for the implementation of Kalpitiya Integrated Tourist Development Project to complete within 5 years, any construction works whatsoever had not been done even by the end of 31 December of the year under review.
- (b) A detailed budget to cover up the project implementation plan project management expenses consultancy and capital works etc had not been prepared.
- (c) Fourteen Island under this project had been vested in the Authority to give them to investors up to the end of the year under review.
- (d) Eventhough advances totalling Rs.71 million had been given to the Divisional Secretariats in those areas to aquire lands in the Kalpitiya and Dedduwa areas for this project in the year 2007, those lands had not been acquired even by the end of the year under review.

4.12 Personnel Administration

The approved cadre of the Authority amounting to 199 under 19 names of designations had been approved by the Department of Management Services. The actual cadre in the year under review and the previous year had been 180 and 156 respectively.

5. Accountability and Good Governance

5.1 Corporate Plan

Eventhough a corporate plan had been prepared for the period 2013 to 2015, targets for few items stated in it had not been mentioned and the targets to be achieved at the end of each year had not been periodically reviewed and updated.

5.2 Action Plan

Eventhough periods had been indicated in the action plan prepared for the year under review, a methodology to assess the progress of the achievement of objectives periodically had not been introduced.

5.3 Internal Audit

An officer who had no qualifications approved by the Department of Management Services had been appointed to the Post of Chief Internal Auditor in the year under review. An audit in accordance with the plant of the Internal Audit Division had also not been carried out.

5.4 Procurement Plan

A main Procurement Plan had not been prepared in terms of Guideline 4.2.1 (a) of the Government Procurement Guidelines of 2006.

5.5 Budgetary Control

A variation between the 13 budgeted expenditure objects and the actuals ranging from 32 per cent to 283 per cent was observed in the year under review and as such the Budget had not been made use of as an effective investment of Management Control.

5.6 Tabling the Annual Reports

The Annual Report of the Sri Lanka Tourism Development Authority for the year 2013 had been tabled in parliament in the year 2015.

6. Systems and Controls

Weaknesses in systems and controls were brought to the attention of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

Systems Control area

Observations

(a) Development Programs

A system had not been formulated to carry out development programs in compliance with the action plan and to report the physical progress.

- (b) Project Control

In the implementation of Projects supervision of them and recommendation and approving payments, it had been done without checking work done reports adequately.
- (c) Asset Management

Assets registers had not been maintained in an updated manner and action had not been taken acquire the ownership of properties.
- (d) Accounts receivable and payable

Action had not been taken to settle receivables and payables.
- (e) Accounting

Accounting had been made in terms of Sri Lanka Public Sector Accounting Standards disclosure of accounting policies and accounting of capital assets made without prime documents.