Sri Lanka Tourism Promotion Bureau - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Tourism Promotion Bureau as at 31 December 2012 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium sized Entities.

1.2 Comments on Financial Statements

1.2.1 Non Compliance with Sri Lanka Financial Reporting Standards for Small and Medium sized Entities (LKAS)

Following observation are made.

Item	Reference to LKAS	Requirement	Non-compliance
Inventories	Section 13 of the LKAS for SMEs	An entity shall measure inventories at the lower of cost and estimated selling price which is less costs to complete and sell.	(i) 27 numbers of non-moving items which were valued at Rs. 2,034,054, had not been taken in to the accounts
			(ii) Value of management diaries for the year 2012 amounting to Rs. 419,556 had been included in the inventories.

1.2.2 Accounting Deficiencies

Following observations are made.

(a) Donations amounting to Rs.1, 128,000 had been accounted under trade related expenses instead of being shown as donations.

(b) Foreign travelling allowance amounting to Rs 149,265 had been overpaid to an officer due to calculation error in contrary to the provisions in the circular No. මු.කා.අ/1/2010/01 dated on 11 October 2010.

1.2.3 Unreconciled Control Accounts

The following observations are made.

Description of control accounts	Balance as per accounts	Description of subsidiary records	Balance as per subsidiary records	Difference
	Rs.		Rs.	Rs.
Payable to Sri Lanka Tourism Development Authority	24,371,043	Sri Lanka Tourism Development Authority final accounts	26,948,539	2,577,496
Payable to Sri Lanka Institute of Tourism and Hotel Management	54,179	Sri Lanka Institute of Tourism and Hotel Management final accounts	44,484	9,695
Payable to Sri Lanka Institute of Tourism and Hotel Management	Nil	Sri Lanka Institute of Tourism and Hotel Management final accounts	4,417,949	4,417,949

1.2.4 Accounts Receivable and Payable

The following observations are made.

(a) Creditors amounting to Rs. 2,827,822 and Rs. 8,980,922 relating to the years 2007 and 2008 respectively had not been settled.

(b) Amount receivable from the International Indian Films Award festival organizing firm had not been accounted for as receivable from the said organization. Acording to the information made available to audit, a sum of Rs.20 million approximately should be recovered from the above firm relating to the hotel room facilities provided by the Bureau, on behalf of the above firm.

1.2.5 Lack of Evidence for Audit

Following items in the accounts could not be satisfactory vouched in audit due to the non-availability of evidence indicated against each.

Description	**Valve**	**Evidence not made available**
	Rs.	
(a) Visiting Journalist programme	26,438,483	Number of programmes conducted and particulars relating to the media publications.
(b) Trade fair – International Travel Borse	32,565,827	Detailed Schedules
(c) Trade fair – World Travel Market	29,868,208	Detailed Schedules
(d) Promotional expenses incurred by the Ministry of Foreign Affairs	55,427,296	Invoices
(e) Pre payments	2,808,927	Confirmations
(f) Receivables	481,324,185	Confirmations
(g) Inventories	291,912	Physical verification reports.

1.2.6 Non - compliance with Laws, Rules, Regulations and Management Decisions

Following instances of non- compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) **Sub section 09 of Section 40 of Chapter VII of the Tourism Act No 38 of 2005**	Following documents had not been submitted to the Minister of Economic Development before the expiry of a period of three months from the end of each calendar year. (a) A copy of half year accounts before the end of the seventh month of the calendar year. (b) A statement containing achievements and performance relating to the plan presented for the previous year .
(b) **Public Enterprise Guidelines for Good Governance Circular No.PED/12 of 2 June 2003.**	
(i) Section 5.1.3 of Chapter5	An updated copy of the Corporate Plan approved by the Board should have been sent to the Auditor General at least 15 days before the commencement of the financial year. However, the Bureau had failed to comply with this requirement.
(ii) Section 9.12 of Chapter 9	Any welfare scheme adopted by an enterprise should be approved by the General Treasury. However, the Bureau had failed to obtain the approval for the Employees' Medical Insurance Scheme as per the requirement.

(iii) Section 9.14.1of Chapter 9	Providing rules and regulations on all matters relating to management of human resources should be approved by the Board together with the concurrence of the Secretary to the Treasury. However the Bureau had failed to comply with this requirement.
(c) Sections 4.2.1 (a) and (c) of Chapter 4 of the The National Procurement Agency Circular No. 08 of 25 January 2006	Although a procurement plan should be prepared covering at least three years together with a detailed plan for the next year, the Bureau had not prepared such plan as required.
(d) Public Enterprise Circular No.PED/56 dated 11 January 2011	Although excess cash at the public institutions should be credited to the Consolidated Fund, after considering the working capital requirement for ensuing 6 months, the Bureau had not credited such excess cash to the Consolidated Fund. According to the calculations made by the audit the excess cash might be around Rs. 1000 million for the year under review.
(f)Treasury Circular No. IAI/2002/2 of 28 November 2002	A fixed assets register for computers, computer accessories and software owned by the Bureau, had not been maintained as per requirement of the Circular.
(g) Public Enterprise Circular No. PED/57 dated 11 February 2011	All Public Enterprises are required to obtain the approval of Hon. Minister of Finance and Planning for any donation/sponsorship exceeding Rs.100,000. However, without obtaining the said approval a sum of Rs. 1,128,000 had been donated to two private organizations during the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Bureau for the year ended 31 December 2012 had resulted in a surplus of Rs. 476,209,102 as compared with the corresponding surplus of Rs. 551,545,914 for the preceding year, thus indicating a decrease of Rs. 75,336,812 in the financial results. The increase of trade related expenditure - local by Rs. 279,333,441 had been the main reason for the decrease of financial results.

2.2 Analytical Financial Review

The revenue of the Bureau for the year under review was Rs. 1,444 million as compared with Rs. 1,248 million in the preceding year representing an increase of 15.7 per cent. Whereas the expenditure incurred for the trade related and marketing and promotional activities during the year under review was Rs. 968 million as compared with Rs. 697 million in the previous year. This was indicating an increase of 39 per cent.

2.3 Working Capital Management

Some of the significant ratios are given below.

Equity Ratios	Standard Ratio	2012	2011	2010
Current ratio	2:1	2:84	3:28	2:47
Quick ratio	1:1	2:83	3:25	2:45

3. Operating Review

3.1 Performance

The following observations are made.

(a) A sum of Rs. 876 million had been incurred as Trade related expenditure during the year under review. However, tourist arrivals had not been increased as expected. Details are given below.

Country	**2012**		**2011**	
	Total Expenses Incurred	**Growth of Tourist arrivals**	**Total Expenses incurred**	**Growth of Tourist arrivals**
	Rs.	**%**	**Rs.**	**%**
United Kingdom	101,492,242	7.7	113,372,372	0.6
Germany	39,246,721	28.2	43,302,313	22.2
France	20,545,444	16.8	20,016,035	55.6
Russia	25,927,841	32.8	30,991,787	61.1
Netherlands	4,044,308	11.6	7,186,800	34.2
India	9,812,701	2.9	835,974	35.1
China	345,319,913	58.1	12,859,576	56,4
Japan	15,923,952	26.7	8,018,073	43.7
Middle East Countries	30,521,920	-0.3	14,153,406	53.2
Malaysia	Nil	35.3	Nil	20.4
Switzerland	Nil	42.1	Nil	49.7

(b) Visiting Journalist Programmes and Familiarization Tours Programmes

The following observations are made.

(i) A sum of Rs. 26.43 million had been spent for the above programmes during the year under review. However, number of programmes to be held during the year under review, emphasizing to select the more favorable and suitable journalist in order to achieve maximum benefits to the country had not been scheduled. Therefore, it was observed that these programmes had been conducted on ad-hoc basis without having a proper media selection plan.

(ii) 181 journalists had participated for 57 Media Familiarization Tours during the year under review. However, criteria to select the Journalists for the programmes had not been determined in order to achieve the expected outcome.

(iii) No evidence were made available for audit relating to the media publicity accomplished through the programmes as expected.

3.2 Human Resource Management

The following observations are made.

(a) Over 45 per cent of approved cadre of the Bureau had been in vacant position. The total cost on human resources during the year under review and the preceding year were Rs. 28.6 million and Rs. 25.8 million respectively. Thus, indicating that the cost per employee for the year under review and the preceding year were Rs. 622,400 and Rs. 562,874 respectively.

(b) The Managing Director of the Bureau had been recruitred on contract basis without considering the requirements in Section VII of the Tourism Act No.38 of 2005.

3.3 Utilization of Vehicles

The following observations are made

(a) A sum of Rs 6,591,906 had been paid to hire two vehicles during the year under review. The cost per Km of the hired vehicles was Rs. 56.32.

(b) The cost of hired vehicles during the year under review had increased by Rs. 4,237,828 or 180 per cent when compared with the preceding year.

4. Accountability and Good governance

4.1 Budgetary Control

The following observations are made

(a) Even though a budget had been prepared, the Board approval for the budget had not been obtained before 3 months of the financial year, in terms of Section 8 (1) of the Finance Act No.38 of 1971.

(b) Variances ranging from 7 per cent to1331 per cent were observed in 22 items between the budget and the actual for the year under review, thus indicating that the budget had not been made use as an effective instrument of management control.

5. Systems and Controls

Weaknesses in systems and controls observed in audit were brought to the notice of the Chairman of the Bureau by my detailed report issued in terms of Section 13(7)(a) of the Finance Act. Special attention is needed in respect of the following areas of control.

(a) Accounting
(b) Promotional Activities
(c) Budget
(d) Human Resource Management
(e) Procurements
(f) Internal Audit