

## **Sri Lanka Tourism Development Authority - 2014**

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The audit of financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the income statement, statement of changes in equity 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**

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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**

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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 Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of the risks of material misstatements of

the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

### **2. Financial Statements**

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#### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Tourism Development Authority, as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Sri Lanka Public Sector Accounting Standards (SLPSAS)**

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The following non-compliances were observed in audit.

| <b>Reference to Sri Lanka Public Sector Accounting Standards</b> | <b>Non-compliance</b> |
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(a) Standard No. 01

Even though assets and liabilities and income and expenditure cannot be set off except at a special case, the capital loss arisen in the revaluation of assets carried out in the year 2008 amounting to Rs.243,736,884 had been deducted from the Capital Reserves and shown in the financial statements.

(b) Standard No. 07

(i) If an item of Property, Plant and Equipment is revalued, the entire class of Property, Plant and Equipment to which that asset belongs should be revalued. Nevertheless without revaluing the entire lands and buildings owned by the Authority, only the land and building at the Head office had been revalued in the year 2008 at Rs. 1,378 million and shown in the financial statements. The fair value of the lands and buildings of the Authority were not reflected in the financial statements due to failure in revaluation of the other lands and buildings.

(ii) The assets given under the operating leases should be shown according to the

nature of the assets in the statement of financial position of the lessor. The lands and rest houses given by the Authority under the operating leases had not been shown in the statement of financial position of the Authority. The details of these lands and rest houses had not been presented to audit as well.

(c) Standard No. 08

It should be a most appropriate estimate of the expenditure necessary to settle the present obligation remaining at the date of reporting the recognized cost as provisions. However, the Authority had considered only the Debtors Age Analysis in making provisions for doubtful debts and bad debts but not considered the Individual Debtor Balances.

(d) Standard No. 09

The closing stock should be valued at cost or the net realized value, whichever is less and it should be disclosed in the financial statements. Even though this policy had been disclosed in the financial statements, the stock had not been valued accordingly.

### **2.2.2 Accounting Policies**

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The following observations are made.

- (a) Even though the assets of the Authority, consisting of rest houses and lands and buildings had been vested in other institutions under lease agreements, the details of the vesting of those assets and the responsibilities bound to be fulfilled had not been disclosed in the financial statements.

(b) The relevant policy for deciding tax ratios to be collected from rented out lands and buildings given on long term and short term lease basis had not been disclosed in the financial statements.

### 2.2.3 Accounting Deficiencies

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Even though the surplus of the comparative information for the preceding year stated in the financial statements presented to audit for the year ended 31 December of the year under review by the Authority had been changed by Rs.7,095,068, the details pertaining to the changes had not been disclosed in the financial statements.

### 2.2.4 Unexplained Differences

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A difference of Rs.1,807,358 was observed between the values shown in the financial reports of the Authority and the corresponding values in the subsidiary reports pertaining to 05 items and the reasons therefore were not explained to audit.

### 2.2.5 Lack of Evidence for Audit

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Evidence shown against the following items was not made available to audit.

| Particulars  | Value      | Evidence not made available  |
|--|------------|--|
|  | Rs.        |  |
| -----  | -----      | -----  |
| (a)Investments for Depreciation<br>(Tourist Board)   | 52,154,737 | Investment Certificate or other written evidence and Letters of Confirmation of Balances |
| (b)Investments for Depreciation<br>(Tourism Bureau ) | 976,509    |  |
| (c)Tourism Fund                                      | 930,000    |  |

|   |            |  |
|---|------------|--|
| (d)Sinking Fund Investments             | 759,021    | } Share Certificates or other written evidence and Letters of Confirmation of Balances   |
| (e)Sri Lanka Tourist Hotel Company Ltd. | 750,000    |  |
| (f)Supplies (metal of large size)       | 1,067,850  | Supporting Documents for the Selection of Supplier, invoices, details of transport of materials, details of taking over of goods and work done records |
| (g)Trade Debtors                        | 30,592,715 | Letters of Confirmation of Balances  |
| (h)Sundry Debtors                       | 4,079,091  | Letters of Confirmation of Balances  |
| (i)Water Consumer Debtors (Pasikuda)    | 6,367,921  | Letters of Confirmation of Balances  |

### 2.3 **Accounts Receivable and Payable**

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The following observations are made.

- (a) Action had not been taken to recover sums of Rs. 2,056,223 remained for over a period of 4 years, Rs. 888,935 for over a period of 3 years and Rs. 6,289,448 for a period between 1 to 3 years receivable from trade debtors.
- (b) Action had not been taken to recover sums of Rs.2,204,344 remained for over a period of 4 years and Rs.1,765,395 for a period between 1 to 3 years receivable from sundry debtors.

## 2.4 Non - compliance with Laws, Rules, Regulations and Management Decisions

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Following instances of non-compliance were observed in audit.

| <b>Reference to Laws, Rules, Regulations and Management Decisions</b>  | <b>Non-compliance</b>  |
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| <hr/>  | <hr/>  |
| (a) Tourism Act, No 38 of 2005   | Approval of the relevant Minister had not been   |
| (i) Sections 7(3) and 12(4)(iii) of Chapter I  | obtained for the payment of Rs. 7,382,305 made by the Authority from the interest of the loan of Rs. 100 million issued to a private hotel by the Bank of Ceylon according to a decision taken without the quorum of the Board of Directors.   |
| (ii) Sub-section 26(1) of Chapter IV   | The Authority had not formulated rules prescribing tourism activities, commercial and other activities that could be carried out in a declared tourist development area.   |
| (b) Sub-section 29:1 of Chapter XLVIII of Volume II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | The relevant Disciplinary Authority had not taken proper disciplinary action against the officers who failed to comply with the laws, rules and regulations revealed in the Report of the Auditor General issued for the year 2013 and the officers responsible for irregularities and acts of misconduct committed. |
| (c) Gazette Extraordinary No.1673/8 dated 28 September 2010 of the Democratic Socialist Republic of Sri Lanka                    | Recommendations had been given to issue liquor permits to the restaurant maintained for Viceroy 1 Train, contrary to the powers of the Authority vested with the Sri Lanka Tourism Development Authority.  |

(d) Guidelines Circular issued by the Secretary to the President dated 24 January 1996

Even though the lease agreements and lease rental should be revised every 5 years when leasing the state lands, actions had not been taken to comply with this circular with regard to lands given on lease by the Authority.

(e)Public Enterprises Circular No.  
PED/12 of 2 June 2003

(i) Section 9.3.1 (i) of Chapter 9

Even though the scheme of recruitments and promotions should be approved by the Governing Council and the Ministry together with the concurrence of the Department of Public Enterprises, with regard to the recruitment of staff to the new section named as “One Stop Unit” had not been complied with this requirement.

(ii) Section 9.14.1 of Chapter 9

Although the Procedure Rules with a chapter on human resource management including rules and regulations on all matters relating to human resources management should be prepared and the concurrence of the Secretary to the Treasury should be obtained along with the approval of the Board of Governors, the Authority had failed to comply with that requirement.



### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Authority for the year ended 31 December of the year under review had resulted in a surplus of Rs. 325,029,262 as compared with the corresponding surplus of Rs. 276,058,788 for the preceding year, thus indicating an increase of Rs. 48,970,474 in the financial result for the year under review as compared with the preceding year. The increase of Tourism Development and Embarkation Levy and other income by Rs. 45,726,521 had mainly attributed to this improvement.

#### **3.2 Analytical Financial Review**

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The revenue of the Authority for the year under review amounted to Rs.546 million as compared with the revenue of Rs. 503 million for the preceding year representing an improvement of 8.5 per cent. The expenditure for the tourism development activities during the year under review amounted to Rs.221 million as compared with Rs. 227 million of the preceding year thus indicating a decrease of 2.6 per cent.

#### **3.3 Legal Actions instituted against/ by the Institution**

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The following observations are made.

- (a) Three cases had been filed in Courts by 03 outside institutions against the Authority claiming compensation amounting to Rs.32,980,555 for providing food, lodging and transport facilities for the International Indian Film Awards Festival.
- (b) Three cases had been filed in Courts by two employees dismissed from service and a lessor of Rest Houses claiming for compensation.

- (c) Three cases had been filed in Courts by the Authority against 13 outside persons in respect of misappropriation of public property.
- (d) A case had been filed against the Commissioner General of Excise in the year under review by an outside institution and the Tourism Development Authority had been named as a respondent in that connection.
- (e) A case had been filed against the Authority by a Director of the Authority for breach of his fundamental rights.

### **3.4 Working Capital Management**

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The Authority could have earned an additional investment income of approximately Rs. 32 million at the interest rate that prevailed, if the sum of Rs.713 million deposited in the Funds Management Account without utilizing throughout the year under review was invested in short term securities on the approval of the Treasury.

## **4. Operating Review**

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### **4.1 Performance**

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The following observations are made.

#### **(a) Performance of the Resorts**

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There were 04 Tourist Holiday Resorts and 03 Tourist Resorts under the ownership and management of the Authority. As compared with the net surplus of Rs. 4,642,129 from these Resorts in the year 2013, the net surplus for the year under review had been Rs. 1,529,201. There was a deficit of Rs. 29,684,516 in 04 Holiday Resorts due to high overhead expenditure. As a result, the overall profitability of the Resorts operations had been approximately 1.6 per cent when compared with the total revenue generated.

- (b) It was revealed in audit that the progress of performance of duties to be fulfilled to achieve the objectives by the Authority in terms of Chapter 1 of the Tourism Activities Act had not been at an optimum level.

#### **4.2 Management Inefficiencies**

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##### **(a) Management of Lands and Properties**

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The following observations are made.

- (i) Out of the extent of land of approximately 510 acres from the Kuchchaweli area in Trincomalee acquired by the Authority many years ago, of which only 2 plots of land less than an extent of 50 acres had been developed or under development stage. However, 8 plots of land had been planned to be leased out by the end of the year under review.
- (ii) Out of the land of the Yala Palatupana Wild Life area of 448.3 hectares vested with the Sri Lanka Tourism Development Authority, only an extent of 26.8 hectares had been given on lease basis to investors up to 31 December of the year under review
- (iii) A register for lands and buildings indicating particulars relating to the deeds of the properties, transfers and additions, developments etc. had not been maintained as a system of primary control.
- (iv) Even though the Gazette Notification had been issued to acquire 56 rest houses and 166 plots of land with an area of 6,495 acres, according to the audit test check conducted by the audit, acquisition had not been completed at the end of the year under review.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) The Authority had granted a sum of Rs.5,738,075 to the Sri Lanka Tourism Welfare Association on 3 September of the year under review for the implementation of Tourism Promotion Programmes. Out of that amount, a sum of Rs.4,768,982 had been spent by the Tourism Welfare Association for providing food free of charge and staff facilities for groups of people selected from areas such as Balangoda, Dehiattakandiya, Padiyathalawa, Hasalaka, Lunugamvehera, and Nuwara Eliya from 3 to 9 September in the year under review and the savings had been deposited in an account belonging to the Welfare Association.
- (b) A recommendation had been granted by the Authority for obtaining a valid liquor license for the years 2013 and 2014 for a restaurant which had not been issued with a standard license.
- (c) The Excise Commissioner had issued an Excise License for the year under review for a restaurant which was not allowed to be issued a liquor license as it had failed to fulfill the payment of tax and other basic needs and the Commissioner of Excise had informed the audit that it had been done on the recommendation of the Sri Lanka Tourism Development Authority.

#### **4.4 Apparent Irregularities**

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The following observations are made.

- (a) The deficiencies observed in respect of the Contract for the Construction of Thorriyadi Jetty and Construction of the Road near the Wannimundalama lagoon are as follows.
  - (i) Instead of supplying metal from the supplier selected under the shopping method, 1648 cubes of metal had been purchased at higher prices from a

person by the Project Director of his own discretion and an over payment of Rs. 824,000 had been made.

(ii) Even though the capacity of the tipper used for the supply of metal, gravel and  $\frac{3}{4}$  metal to Kalpitiya work site was 3 cubes, the payments had been made for the material supplied by considering the capacity as 4 cubes. As such, action had not been taken to recover the overpaid amount of Rs. 2,549,000.

(iii) Even though the Authority had not physically taken over the materials such as 1648 cubes of metal, 368 cubes of  $\frac{3}{4}$  metal and 40 cubes of gravel, a payment of Rs. 10,196,000 had been made in that connection. The Authority had not carried out investigations on this fraud.

(b) The labour contract for maintaining the sewerage system in the Bentota Holiday Resort premises belonging to the Tourist Development Authority had been entrusted to one and the same institution since several years without following the procurement procedure. Even though a sum of Rs. 9,584,956 had been paid to that institution by the Authority in the 2 preceding years for this labour contract, the institution had got the work done by the sub-contractor and paid only a sum of Rs. 2,976,000 to the sub-contractor. As such, the loss sustained by the Authority amounted to Rs. 6,608,749. Further, the above mentioned contract had been awarded to the same institution for the year under review as well without a proper procurement procedure. A written agreement had not been entered into with the relevant institution in respect of this service and a sum of Rs. 4,887,104 had been paid in the year under review in this connection. Even though the Authority does not hold the responsibility for the payment of the taxes to outside parties according to the Nation Building Tax Act, No.09 of 2009, a sum of Rs.191,698 had been paid as Nation Building Tax to the institution which had supplied these services in the preceding year and the year under review. The Authority had to sustain a loss of approximately Rs. 3 million in the year under review as well due to failure in following the proper procurement procedure by the Authority.

(c) Overpayments of Rs.8,849,665, non-recoveries of Rs.500,000 , work not done amounting to Rs.401,060 and overpayments of taxes amounting to Rs.1,338,503 had

been observed in respect of the repairs carried out in the Kataragama Holiday Resort. As such, a loss had been sustained by the Authority and no steps had been taken to recover those amounts from the responsible officers or to take disciplinary action against those officers.

- (d) A sum of Rs. 3,226,950 had been paid for 941.7 clock hours based on 3 letters produced by suppliers stating that the dozers were supplied for the construction of Mohottuwarama Jetty at Kalpitiya. Nevertheless, the payments had been made without being certified by an officer of the Authority in recording working hours daily by meter reading.
- (e) Even though the Manager of the Bentota Resort had fraudulently obtained a total of Rs. 608,226 including a vehicle rental of Rs.480,000, fuel allowances of Rs.128,226 for two institutions for a period of one year for vehicles with forged numbers, the Authority had not taken any disciplinary action whatsoever in that connection.

#### **4.5 Idle and Underutilized Assets**

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Out of the land of approximately 94 acres in extent belonging to the Bentota Tourist Resort vested in the Ceylon Tourist Board in the year 1969 and afterwards in the Tourism Development Authority for the tourism industry, only an extent of a land of approximately 50 acres had been utilized up to 31 December in the year under review. As such, an extent exceeding 40 acres of land had remained idle for over a period of 44 years.

#### **4.6 Uneconomic Transactions**

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A sum of Rs. 5,841,120 had been paid for security services prior to 03 years for the 07 Holiday Resorts in the areas of Bibile, Ragala, Horowpathana, Mahiyanganaya, Weeraketiya, Baththulu Oya and Nikaweratiya. Nevertheless, the Authority had not generated any income whatsoever from these resorts.

#### **4.7 Identified Losses**

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The following observations are made.

- (a) A loss of approximately over Rs. 100,000 had been sustained by the Authority due to failure in gathering harvest from about 600 Coconut and King Coconut trees cultivated in the land of the Bentota National Holiday Resort for a period of about six months continuously from July 2013.
- (b) Building space of about 2880 square feet existing in the premises of Bentota National Holiday Resort had not been utilized for any economic activity from the year 2006 up to the end of the year under review.
- (c) Action had not been taken to recover the sum of Rs. 3,780,253 paid to the officers without a power of authority as salaries and allowances from 2009 to 2011 stating faked information the Kalpitiya Integrated Tourism Development Project which had been funded and implemented by the Authority, as a project of more than U.S. Dollars 30 million financed by foreign funds.
- (d) The Cultural Centre Building (Dutch Hospital) located in Colombo belonging to the Authority had been vested with the Urban Development Authority for an amount of Rs.7,274,715 less than the depreciated value.
- (f) A private institution situated in the area of Bentota National Holiday Resort had paid only a sum of Rs.4,200 per month and obtained water from the Authority for 97 months stating faked information that the water meter had remained inoperative since December in the year under review. As such, the estimated loss sustained by the Authority had been Rs. 8,415,400.

**4.8 Contract Administration**

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The following observations are made.

(a) Construction of Rain Water Drainage System of the Pasikuda Tourist Resort Project.

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(i) As the constructions had not been carried out by considering the geographical aspects of the land in which the construction project was implemented, it was revealed at the physical inspection by audit that water is not directed into the sea by the Drainage System .

(ii) The Director of the Planning and Development Division of the Authority had performed as the Chairman of the Technical Evaluation Committee of this project as well and the payment vouchers in respect of the project amounting to Rs. 31,394,813 had also been certified by him. Even though the checking and certifying measurement sheets and payment bills and preparing payment vouchers had also been done in respect of the above payment vouchers by the Resort Officer who served under contract basis, it did not come under his scope. Without considering that, the Authority had made payments to the contractor.

(iii) It was observed that in comparing the payments made on bills with the actual measurement sheets computed at the physical verification of constructions in audit, an over payment of Rs. 3,792,420 had been made to Contractors.

(b) Contract for Designing “One Stop” Investment Promotion Web Site of the Sri Lanka Tourism Development Authority.

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(i) A Pre-plan or an estimate had not been prepared for designing of the website.

(ii) Only the relevant assignment had been informed in writing without entering into a written agreement with the client selected.

(iii) A performance bond had not been obtained in respect of the contract.



- (iv) An over payment of Rs. 699,300 had been made in the year under review relating to this contract.

#### **4.9 Uneconomic Transactions**

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The Authority had paid a sum of Rs.2,659,875 for the purchase of 55 sofa chairs without evaluating the requirement. Even though arrangements had been made to obtain the relevant supply by calling for limited quotations from 4 institutions, action had not been taken to call for quotations from the furniture company which had provided the sample chair. Fifty per cent of the total value of supplies had been paid as advances contrary to Section 5.4.4 of the Procurement Guidelines in the payment of advances for the purchase of chairs and a fruitless expenditure of Rs.211,000 had been incurred for the transport of chairs. Three chairs valued at Rs.159,803 had been misplaced as well.

#### **4.10 Delays in Projects**

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The following observations are made in respect of the Kalpitiya Integrated Resort Project which had been commenced to construct resorts with 4,000 rooms and infrastructure facilities at an estimated cost of Rs. 5,521 million.

- (a) The approval of the Cabinet of Ministers and the Department of National Planning of the Treasury required to implement and complete the Integrated Development Project within five years had been obtained in the year 2008. Nevertheless, no hotel room whatsoever had been constructed up to 31 December of the year under review.
- (b) A project implementation plan and a detailed budget covering management expenses, consultancy and capital works had not been prepared.

- (c) Even though the Authority was authorized to give 14 islands to the investors under this project, only 3 islands had been given to investors up to the end of the year under review. Details to ensure whether environmental evaluation reports had been obtained on these constructions had not been presented to audit.

#### **4.11 Human Resources Management**

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The following observations are made.

- (a) One hundred and ninety two posts under 31 categories had been approved by the Department of Management services. The actual cadre for the year under review and the preceding year had been 156 and 154 respectively.
- (b) Despite having taken 65 1/2 no pay leave by the Manager of the Bentota Resort in the years 2012 and 2013 without documenting in the register or informing the management, a sum of Rs.80,960 had been paid as unavailed leave allowance in both the years.

### **5. Accountability and Good Governance**

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#### **5.1 Corporate Plan**

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A Corporate Plan for 3 years from the year 2013 to 2015 had been prepared. The targets had not been made for some items mentioned in the plan and the targets to be achieved at the end of each year had not been updated and periodically reviewed.

**5.2 Action Plan**

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An Action Plan had been prepared for the year under review. Time frames had not been mentioned in the Action Plan and a methodology had not been introduced to check the timely progress of the Action Plan.

**5.3 Internal Audit**

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An Internal Audit Unit is maintained under the purview of an officer holding the post of the Assistant Director and an adequate supporting staff had not been attached to that unit. As such, the revelations in respect of internal audit carried out in this Unit are not satisfactory.

**5.4 Procurement Plan**

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A Master Procurement Plan had not been prepared in terms of the Procurement Circular No. 8 and 4.2.1 (b) of 25 January 2006.

**5.5 Budgetary Control**

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Variances were observed between the estimated and the actual figures of 12 items ranging from 13 per cent to 100 per cent in the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

**6. Systems and Controls**

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Observations made in systems and controls during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Development Programmes
- (c) Project Management
- (d) Assets Management
- (e) Contract Administration