

Sustainable Tourism Development Project - 2013.

The audit of financial statements of the Sustainable Tourism Development Project for the year ended 31 December 2013 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 IIB (3) of the Financing Agreement No. 4702-LK dated 08 November 2010 entered into between the Democratic Socialist Republic of Sri Lanka (GOSL) and the International Development Association (IDA).

1.2 Implementation, Objectives, Funding and Duration of the Project

As per the Financing Agreement of the Sustainable Tourism Development Project, the Ministry of Economic Development (MOED) and the Sri Lanka Tourism Development Authority (SLTDA) are the Executing and Implementing agencies of the Project respectively. The objective of the Project is to strengthen the institutional framework for the tourism sector of the recipient to facilitate environmentally and socially sound investments, in particular in the Eastern Province. As per the Financing Agreement, the estimated total cost of the Project is SDR 11,600,000 (USD 18 Million). The entire amount was agreed to be financed by the International Development Association (IDA). The Project commenced its activities on 16 May 2011 and was scheduled to be completed by 31 December 2014. However, according to the decision taken by the Secretary to the Treasury, Project activities had been terminated on 14 October 2013.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides reasonable basics for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records as deemed necessary to assess the following.

- a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over the Project management and the reliability of books, records etc. relating to the operations of the Project.
- b) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the lending agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of purchases made out of the Credit etc.
- c) Whether withdrawals under the Credit had been made in accordance with the specifications laid down in the Financing Agreement.
- d) Whether the funds, materials and equipment supplied under the Credit had been utilized for the purposes of the Project.
- e) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- f) Whether the financial statements had been prepared on the basis of Generally Accepted Accounting principles.

- g) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- h) Whether financial covenants laid down in the Financing Agreement had been complied with.

3. Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 5 of this report, I am of opinion that;

- a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 in accordance with Generally Accepted Accounting Principles.
- b) the funds provided had been utilized for the purposes for which they were provided,
- c) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- d) the financial covenants laid down in the Financing Agreement had been complied with.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available, the expenditure of the Project for the year under review amounted to Rs. 10,041,213 and the cumulative expenditure as at 31 December 2013 amounted to Rs.13,730,630. A summary of the component wise project expenditure for the year under review, the expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 is shown below.

Category of Expenditure	Expenditure for the year ended		Cumulative expenditure as at 31 December 2013
	31 December		
	2013	2012	
	Rs.	Rs.	Rs.
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Property, Plant and Equipment (Net Book value)	2,857	-	101,323
Consultancy Fees	-	300,000	1,711,850
Advertisements and Publications	1,896,803	-	2,415,446
Administration Expenditure	7,636,638	81,595	8,585,221
Other Project Expenditure	503,915	-	912,779
Finance cost	1,000	-	4,011
	<u>10,041,213</u>	<u>381,595</u>	<u>13,730,630</u>

4.2 Special (Dollar) Account

There was no Special (Dollar) Account had been maintained from the beginning of the Project.

5. Audit Observations

Following observations are made.

- (a) Although a comprehensive detail action plan at the beginning of the Project and after amendment of the Project scope should be prepared to ensure the achievement of the Project objectives within a specific Project period, such a plan had not been prepared and implemented.
- (b) Although objectives of the Project had been clearly defined at the beginning as well as scope of the Project had been amended on 05 February 2013 and expenditure aggregating Rs. 13,730,630 had been incurred on preliminary works such as advertisements and administration purposes to achieve such objectives, it had been concluded on the request of the Secretary to the Ministry of Economic Development without making for any alternatives to achieve such objectives. Therefore, cost incurred for the above activities

appeared to be fruitless. Further approval from the Cabinet of Ministers for the termination of this Project was not made available for audit.

- (c) Service and commitment chargers and interest payable for the fund utilized had not been ascertained and brought to accounts in terms of Sections 2.03 and 2.04 of the Financing Agreement.

6. Financial and Operating Review

6.1 Utilization of Fund

The position of the utilization of fund for the year under review and as at 31 December 2013 are given below.

Source	Fund allocation as per financing Agreement		Allocation made for the year under review as per annual estimate	Funds utilized up to 31 December 2013	
	USD	Rs.		USD	Rs.
IDA	18,000,000	-	700,000,000	114,417	13,563,370
GOSL	-	-	-	1,499	164,500
	<u>18,000,000</u>	<u>-</u>	<u>700,000,000</u>	<u>115,916</u>	<u>13,727,870</u> *

- * This amount differs from the amount shown in Paragraph 4.1 of this report due to effect of accrued expenditure.