

## **Tourism Resources Improvement Project - 2013**

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The audit of financial statements of the Tourism Resources Improvement Project (TRIP) 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 4(8) of Article III of the Loan Agreement No.SL-P86 dated 28 March 2006 entered into between of the Democratic Socialist Republic of Sri Lanka (GOSL) and the Japan Bank for International Co-operation (JBIC) presently known as Japan International Co-operation Agency (JICA).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Loan Agreement of the Tourism Resources Improvement Project, the Ministry of Economic Development is the Executing Agency and the Municipal Councils of the project implementing areas, Western Province Road Development Authority, Road Development Authority, Central Cultural Fund and the Department of Local Government of the North Central Province are the Implementing Agencies of the Project. The objective of the Project is to contribute to the social and economic development by increasing number of tourists and tourism development through tourism resource infrastructure, human resource development in Colombo, Kandy, Negombo, Nuwara- Eliya, Sigiriya and Anuradhapura and marketing and promotion activities in Japan. According to the Loan Agreement, the estimated total cost of the Project was Rs.3,128 million and out of that Rs.2,346 million or 75 per cent was agreed to be financed by the Japan International Co-operation Agency. The Project commenced its activities on 28 March 2006 and was scheduled to be completed by December 2012. Eventhough the activities of the Project were completed in May 2013, the financial statement for the year ended 31 December 2013 had been presented.

### **1.3 Responsibility of the Management for the Financial Statements**

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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 preparation 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**

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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 assessments 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 Loan etc,
- c) Whether withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreement,
- d) Whether the funds, materials and equipment supplied under the Loan 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 the opening and closing balances, withdrawals from and replenishments to the Special Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL), as at that date,.
- h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- i) Whether financial covenants laid down in the Loan Agreement had been complied with.

### **3. Opinion**

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So far as appears from my examination to the best of information and according to the explanations given to me, except for the adjustments arising from the matters referred to in paragraph 5 of this report, I am 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 view of state of affairs of the Project as 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) the opening and closing balance, withdrawals from and replenishments to the Special Account during the year ended 31 December 2013 had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2013 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreement.
- (e) satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Loan Agreement had been complied with.

#### **4. Financial Statements**

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##### **4.1 Financial Performance**

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According to the financial statements and information made available to audit, the expenditure of the Project for the year under review amounted to Rs.882 million and the cumulative expenditure as at 31 December 2013 amounted to Rs.3,700 million. A summary of the expenditure of the Project for the year under review, expenditure for the preceding year and the cumulative expenditure as at 31 December 2013 are shown below.

<b>Category of Expenditure</b>	<b>Expenditure for the</b>		<b>Cumulative</b>
	<b>year ended 31</b>		<b>Expenditure as at</b>
	<b>December</b>		<b>31 December 2013</b>
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	<b>2013</b>	<b>2012</b>	
	<b>Rs. million</b>	<b>Rs. million</b>	<b>Rs. million</b>
Civil works and Procured Equipment	451.60	186.10	2,177.97
Capacity Building Programme	32.25	76.62	209.07
Community Development Programme	-	7.75	28.65
Tourism Marketing and Promotion programme in Japan	357.35	114.44	474.76
Consultancy Services.	7.00	0.37	337.45
Interest and Service Charges	10.55	25.51	83.09
Administration Cost	23.25	43.32	389.33
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	<u>882.00</u>	<u>454.11</u>	<u>3,700.32</u>

## 4.2 Special Account

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According to the financial statements and information made available, the operations of the Special Account during the year under review and the balance therein as 31 December 2013 summarized below.

	Japan Yen	Rs.
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Balance as at 01 January 2013	83,058,682	122,918,543
Replenishments	301,999,807	385,825,637
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	385,058,489	508,744,180
Less:		
Withdrawals	379,821,534	499,368,552
Refunds made to the JBIC	5,236,955	6,663,502
Foreign Exchange Loss	-	2,712,126
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Balance as at 31 December 2013	Nil	Nil
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## 5. Audit Observations

### 5.1 Accounting Deficiencies

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The following observations are made.

- (a) The civil works valued at Rs. 416,038,327 shown in the balance sheet was not agreed with the balance amounting to Rs.411,443,718 shown in the corresponding notes to the financial statement. The difference of Rs.4,594,609 had not been explained.
- (b) The Project had refunded Japan Yen 5,236,955 equivalent to Rs 6,663,502 to the JBIC during the year under review and it had been adjusted in the financial statement as a foreign exchange loss. Further, details relating to the foreign exchange loss incurred in connection with the construction of Moragaswewa – Sigiriya Road amounting to Rs.368,883 shown in the balance sheet had not been furnished to audit.
- (c) The balance of borrowing cost of Rs.23,021,845 capitalized and shown in the balance sheet under investment cost had been overstated by Rs.10,050,705 due to double accounting.

## 6. Financial Operating Review

### 6.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision and the utilization of funds during the year under review and up to 31 December 2013 are given below.

Source	Amount agreed to be financed under the Loan Agreement		Budgetary provision for the year 2013	Funds utilized	
	Japan Yen	Rs		during the year 2013	up to 31 December 2013
	million	million	million	million	million
JICA	2,604	2,346	892.43	863.93	3,316.20
GOSL	868	782	73.00	68.54	424.84
Total	<u>3,472</u>	<u>3,128</u>	<u>965.43</u>	<u>932.47</u>	<u>3,741.04</u>

Funds utilized as at 31 December 2013 amounting to Rs 3,741.04 million was not agreed with the cumulative expenditure of the Project amounting to Rs 3,700.32 million as at that date. Further, funds utilized during the year under review amounting of the Rs.932.47 million had also not been agreed with the cost of Rs.802 million incurred during the year under review as shown in the financial statements. However, reasons for such differences had not been explained for audit.

### 6.2 Physical Performance

The activities of the Project scheduled to be completed on 31 December 2012 had been completed in May 2013. However, action had not been taken to transfer the assets valued at Rs.51,964,914 to the respective institutions and settle the liabilities amounting to Rs.4,852,272 and continuously shown in the balance sheet as at 31 December 2013.