

Sri Lanka Tourism Promotion Bureau - 2013

The audit of financial statements of the Sri Lanka Tourism Promotion Bureau for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, 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 Bureau in terms of Section 14(2)(c) of the Finance Act appear in this report.

1:2 Management's Responsibility for the Financial Statements

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 controls 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 Standards of Supreme Audit Institutions (ISSAT 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, the statement of financial performance, the statement of changes in equity and the cash flow statement.

2. Financial statements

2:1 Disclaimer Opinion

Because of the significance of the matters described to paragraph 2:2 of this report, I have not been able 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 Accounting Deficiencies

The following observations are made.

- (a) Publicity expenditure amounting to Rs.80,150,942 relating to the year 2014 had been brought to account as an expenditure of the year under review.
- (b) The interest income amounting to Rs.1,318,681 relating to the year under review had not been included in the financial statements.
- (c) The basis of valuation and the method of computation relating to the stock of inventory goods valued at Rs.15,558,831 included in the financial statements for the year under review had not been disclosed.

2:2:2 Unexplained Differences

Differences between the balances in the financial statements of the Bureau and the financial statements of the following institutions were observed. The explanations for those had not been furnished to audit.

Particulars	Balance according to the Financial Statements	Particulars of Subsidiary Financial Records	Balance according to the Financial Statements of the Institution	Difference
-----	Rs.	-----	Rs.	Rs.
Sri Lanka Institute of Tourism and Management	--	Debtors	2,960,342	2,960,342
Sri Lanka Tourism Development Authority	26,091,753	Debtors	26,127,775	36,022

2:2:3 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit as the evidence indicated against those had not been furnished to audit.

Item	Value	Evidence not made available
-----	Rs.	-----
(a) Management of Three Day Bangalore Events	11,362,520	Reports of Work Done
(b) Expenditure Payable	155,491,948	Invoices

(c)	Event CHOGM	359,392,539	Bid Documents, Goods and Services Agreements
		181,835,691	Invoices
		3,935,028	Goods Received Note
(d)	Expenditure on Trade Activities	53,566,583	Bid Documents and Acknowledgements for receipt of cash.

2:3 Accounts Receivable and Payable

The following observations are made.

- (a) The receivable balance of Rs.1,102,961,333 included balances amounting to Rs.3,404,920 older than 04 years, Rs.1,831,792 older than 2 years and less than 3 years and Rs.355,000 older than one year and less than 02 years.
- (b) The payable balance of Rs.26,136,236 included balances amounting to Rs.11,575,098 older than 06 years, Rs.203,890 older than 5 years and less than 6 years, Rs.48,000 older than 3 years and less than 4 years, Rs.1,258,647 older than 2 years and less than 3 years and Rs.6,913,097 older than 1 year and less than 2 years.

2:4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed during the course of audit are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Tourism Act, No. 38 of 2005 Chapter VII	
(i) Section 40 Sub-section 09(a)	The half yearly accounts had not been presented to the Minister before the elapse of seven months of the year.
(ii) Section 40 Sub-section 09(e)	A statement of success and performance according to the plan presented for the preceding year had not been presented to the Minister within a period of 03 months after the end of the year.
(b) Finance Act, No. 38 of 1971 Section 10 Sub-section 5.	The net surplus of Rs.6,238,009 for the year under review had not been transferred to the Consolidated Fund.

(c) Public Enterprises Guidelines No.
PED/12 of 02 June 2003.

(i) Chapter 5 Section 5.1.3

Even though a copy of the updated Corporate Plan approved by the Board of Directors should be presented to the Auditor General 15 days before the commencement of the financial year, the Bureau had failed to comply with the requirement.

(ii) Chapter 9 Section 9.14.1

All rules and regulations made for all matters on the human resources management should be approved by the Board of Directors with the concurrence of the Secretary to the Treasury. But the Bureau had failed to comply with the requirement.

(d) Government Procurement
Circular 2006 Chapter 4 Section
4.2.1(a) and (c)

Even though a Procurement Plan at least to cover 3 years with the detailed plan for the ensuing year should be prepared, the Bureau had not prepared such plan according to the requirement.

3. Financial Review

3:1 Financial Results

According to the financial statements presented, the working of the Bureau for the year ended 31 December 2013 had resulted in a surplus of Rs.6,238,009 as compared with the corresponding surplus of Rs.828,271.230 for the preceding year, thus indicating a decrease of the surplus by a sum of Rs.822,033,221. The increase of expenditure on trade activities by a sum of Rs.1,390,600,508 had been the main reason for the decrease.

3:2 Analytical Financial Review

The income of the Bureau for the year under review amounted to Rs.2,021 million and that as compared with Rs.1,444 million for the preceding year indicated an improvement of 39.9 per cent. Similarly, as compared with the expenditure of Rs.549 million incurred in the preceding year on trade activities, marketing and promotion, a sum of Rs.1,940 million had been spent on those activities in the year under review. As such an increase of expenditure by 253.3 per cent was indicated.

3:3 Legal Action initiated against the Bureau

Seven cases filed against the Bureau claiming for payments amounting to Rs.45,915,775 relating to the International Indian Film Awards Ceremony had been pending even by the end of the year under review.

3:4 Working Capital Management

According to the working capital ratios computed for the year under review and the two preceding years, it was observed that the management of the working capital had been at a weak level due to the failure to maintain the working capital at the optimum level.

4. Operating Review

4:1 Performance

The following observations are made.

- (a) The expenditure on trade activities during the year under review amounted to Rs.1,940 million and that expenditure in the preceding year amounted to Rs.549 million and as such the increase in the expenditure had been 253.3 per cent. The increase in the tourist arrivals in the year under review, as compared with the increase in the expenditure on trade activities, had been only 26.7 per cent. As such, any direct impact of the increased expenditure on trade activities on the tourist arrival was not observed in audit.

(b) **Tourism Promotion Pilot publicity Programme**

The following observations are made.

- (i) Expenditure amounting to Rs.68.94 million had been incurred on the above Programme in the year under review. These programmes had been held for 322 media persons of 29 countries without any preparedness relating to the indicators prepared for the selection of media persons suitable and favourable for providing maximum benefits to the country and the number of programme to be held in the year.
- (ii) Any evidence which would confirm that the publicity expected from the programme had been carried out had not been furnished by the Bureau to audit.

(c) **Implementation of Tourism Promotion Programmes**

The Bureau had incurred all the expenditure amounting to Rs.324,998,601 for the two Promotion Programmes held in China and India during the year under review disregarding the decision of the Cabinet of Ministers dated 18 August 2011 which required the private and public sector institutions should jointly implement the Tourism Promotion Programmes and bear the expenditure required for the implementation of the programmes. Even though over 100 institutions in public and private sector had participated in the two programmes contributions had not been obtained from those institutions.

4:2 Management Inefficiencies

The surplus money of the Bureau amounting to about Rs.1,200 million had not been invested up to 27 December of the year under review and as such the Bureau had been deprived of a sum of Rs.134 million approximately.

4:3 Transactions of Contentious Nature

The following observations are made.

- (a) A sum of Rs.5,996,000 had been spent as the entertainment expenses of the “Graduate Trainees Conference” which had not been identified as an expenditure for the achievement of the objectives of the Bureau.
- (b) A sum of Rs.5,563,488 had been paid to a certain private company for the supply of garments to tourist trade community under the Divineguma Project of the line Ministry.
- (c) Even though a sum of Rs.200,000,000 out of the net surplus for the year 2011 had been given to 04 Provincial Councils for tourism promotion activities, the Bureau did not have the records on the use of the money for the relevant trade activities and the progress of those activities.

4:4 Apparent Irregularities

A sum of Rs.3,015,000 had been paid to a certain dance troupe of a institution selected by calling for quotations without following the instructions in the Government Procurement Guideline Procedure and without transparency.

4:5 Personnel Management

The following observations are made.

- (a) Over 60 per cent of the approved cadre of the Bureau remains vacant. The total cost of the human resources for the year under review and the preceding year amounted to Rs.31.5 million and Rs.28.6 million respectively. As such the cost per employee in the year under review and the preceding year had been Rs.900,654 and Rs.622,400 respectively.
- (b) The Managing Director of the Bureau had been recruited on contract basis without taking into consideration of the provisions in Chapter VII of the Tourism Act, No. 38 of 2005.

4:6 Utilization of Motor Vehicles

The following observations are made.

- (a) A sum of Rs.11,584,750 had been paid for the motor vehicles procured on hire basis. The number of kilometres run by the motor vehicles had not been furnished to audit and as such the cost per kilometer could not be computed.
- (b) The cost of motor vehicles procured on hire basis during the year under review as compared with the preceding year, had increased by Rs.4,992,843 or 75.7 per cent.

5. Accountability and Good Governance

5:1 Delay with Presentation of Accounts

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the accounts could be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year 2013 had been presented to the Auditor General only on 16 June 2014.

5:2 Corporate Plan

A Corporate Plan at least for a period of 03 years from the year under review had not been prepared in terms of the Public Enterprises Circular No. PED/12 of 02 June 2003.

5:3 Action Plan

The Marketing and Strategic Action Plan for the year under review had been prepared. The strengths, weaknesses, opportunities and threats of the Bureau had not been identified and included in that Action Plan. Methodologies had not been introduced for the periodical examination of the progress of the activities included in the Action Plan.

5:4 Internal Audit

Even though the internal audit function of the Bureau had been assigned to the Internal Audit Division of the Ministry, copies of the Internal Audit Programmes and the copies of Internal Audit Queries had not been furnished to the Auditor General.

5:5 Audit Committee

Even though the Audit Committee should meet at least once in 3 months in terms of the Public Enterprises Circular No. 55 of 14 December 2010, only one meeting had been held in December of the year under review.

5:6 Budgetary Control

The following observations are made.

- (a) Even though a budget had been prepared, the approval of the Board of Directors for the budget had not been obtained 3 months before the commencement of the financial year in terms of provisions in Section 8(1) of the Finance Act, No. 38 of 1971.
- (b) Variances ranging from 20 per cent to 132 per cent were observed between the budgeted amounts and the actual amounts of 35 items for the year under review, thus indicating that the budget had not been made use of as an effective instrument of financial control.

6. **Systems and Controls**

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Bureau from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (a) Budget
- (b) Accounting
- (c) Trade and Marketing Activities
- (d) Human Resources Management
- (e) Procurement
- (f) Internal Audit
- (g) Financial Management