

## **Sri Lanka Tourism Promotion Bureau - 2014**

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The audit of financial statements of the Sri Lanka Tourism Promotion Bureau for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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**

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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 Auditing 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bureau'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 Bureau's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management. Subsections (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 audit 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 Promotion Bureau 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**

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Even though assets and liabilities shall not be offset unless required or permitted by an Accounting Standard, according to Sri Lanka Public Sector Accounting Standard 01, the negative bank balance of Rs.81,485,839 had been set off against the value of cash and cash equivalents and shown in the financial statements as at 31 December of the year under review.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The sum of Rs. 500 million remitted to the Treasury had been included in the financial expenditure of the statement of financial performance instead of been adjusted to the surplus of the year under review.
- (b) Action had not been taken to consider the possibility of the recovery of outstanding debtor balances and the receivable balances amounting to Rs. 4,090,670 for over a period of 02 years and to make provisions thereon.

#### **2.2.3 Unexplained Differences**

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Even though the creditors' balance relating to the Sri Lanka Tourism Promotion Bureau amounted to Rs. 8,187,104 in the financial statements of the Bureau, according to the financial statements of the Tourism Development Authority, the debtors' balance relating to the Bureau had been Rs. 8,753,371, thus observing a difference of Rs. 566,267.

### **2.3 Lack of Evidence for Audit**

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The following observations are made.

- (a) A sum of Rs. 655,474,602 remitted to High Commissions had been brought to account as trade expenditure. Nevertheless, tender documents and invoices relating to the confirmation of expenditure and evidence that money had been acknowledged by the relevant parties, was not made available to audit.

- (b) Documentary evidence relating to the confirmation of the sum of Rs. 38,565,610 included in the financial statements as cash in transit was not made available to audit.
- (c) Even though a sum of Rs. 3,304,920 recoverable from the United States Promotion Office and an external party had been outstanding for a long period, those balances had not been confirmed by the relevant parties.

## 2.4 Accounts Receivable and Payable

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The receivable balances as at 31 December of the year under review, included a total sum of Rs.2,448,920 older than 4 years and a total sum of Rs. 1,594,844 older than 01 year and less than 04 years. Further, the payable balances included a sum of Rs. 48,000 older than 04 years and a sum of Rs. 7,836,960 older than 02 years and less than 04 years.

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

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

### Reference to Laws, Rules, Regulations and Management Decisions

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### Non-compliance

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| (a) Sub-section 09 of Section 40 of Chapter VII of the Tourism Act, No. 38 of 2005                          | The report of the functions of the Bureau, half yearly statement of accounts, an expected plan for a period of three ensuing years and statements containing the performance relating to the plan presented for the previous year which should be submitted to the Minister before the expiry of a period of three months from the end of each calendar year, had not been submitted. |
| (b) Finance Act, No. 38 of 1971   |   |
| (i) Sub section 5 of Section 10   | Even though all sums remaining out of the net surplus revenue in any year shall be paid to the Consolidated Fund, action had not been so taken.   |
| (ii) Sub-sections 2 and 3 of Section 16   | Concurrence of both the appropriate Minister and the Minister of Finance had not been obtained for the overdraft amounting to Rs.81,485,839 as at 31 December of the year under review.   |
| (c) Financial Regulation 396 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka | Action had not been taken in terms of Financial Regulations in respect of cheques valued at Rs. 139,573, the period of validity of which had expired.   |

- (d) Section 9.14.1 of Chapter 9 of the Public Enterprises Guidelines No. PED/12 of 02 June 2003 on Good Governance
- All rules and regulations made for all matters in respect of human resources management should be approved by the Board of Directors with the concurrence of the Secretary to the Treasury. However, the Bureau had not complied with that requirement.

## **2.6 Transactions not Supported by Adequate Authority**

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A sponsorship allowance of Rs. 5,000,000 had been granted to a certain private institution without an approval of the Minister of Finance and Planning in terms of the Circular No.57 of 11 February 2011 of the Department of Public Enterprises.

## **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 Bureau for the year ended 31 December 2014 had resulted in a surplus of Rs.17,936,798 as compared with the corresponding surplus of Rs.118,913,920 for the preceding year, thus indicating a deterioration of Rs.100,977,122 in the financial result. The financial result had deteriorated due to charging the sum of Rs. 500 million remitted to the Treasury as financial expenses during the year under review.

### **3.2 Legal Action initiated against the Bureau**

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Eight cases filed against the Bureau by private institutions and parties who had provided services and supplies claiming for payments amounting to Rs.120,694,486 for the International Indian Film Awards Ceremony had been pending even by the end of the year under review.

### **3.3 Unusual Increase in Expenditure**

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An unusual increase of Rs. 683,787,300 was observed in 09 Items of Expenditure in the year under review as compared with the year 2013.

### **3.4 Working Capital Management**

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According to the working capital ratios computed for the year under review and the two preceding years, it was observed that there was a high liquidity and continuous short term investment of money had caused to it.

	<b>2014</b>	<b>2013</b>	<b>2012</b>
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Current	10.1:1	5.25:1	2.84:1
Quick	9.96:1	5.2.2:1	2.83:1

## **4. Operating Review**

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### **4.1 Performance**

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The expenditure on trading activities during the year under review amounted to Rs.1,562 million and that expenditure had decreased by 12.9 per cent as compared with the preceding year. However, the increase in the tourist arrivals in the year under review, as compared with the year 2013 had been 19.8 per cent and the income of Sri Lanka had improved by US\$ 0.716 billion or 41.7 per cent as compared with the preceding year. As such, any direct impact of the expenditure on trade activities on the tourist arrival or income on tourism in Sri Lanka was not ensured.

### **4.2 Transactions of Contentious Nature**

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The following observations are made.

- (a) Two gems valued at Rs. 350,000 purchased by deviating from the tender procedure for the trade exhibition held in the United Kingdom from 3 to 6 November 2014 and two gems received free of charge to the Bureau had not been included in the stock books and the value of 02 gems received free of charge had not been assessed and brought to account. According to the examination reports of the Gem and Jewellery Authority, the weight of 4 gems received to the Bureau had been 1.4, 1.6, 1.63 and 1.54 karats and according to the invoices, weight of two gems purchased at a cost of Rs.350,000 had been 5.6 karats. As such, the imbalance of the weight of the gems with the examination report of the Gem and Jewellery Authority was of contentious nature in audit.
- (b) In awarding the contract for construction of trade exhibition stalls for the trade exhibition (WTM (UK) 2014) held in the United Kingdom, despite the opening of letters calling for quotation before 4 days of the date on which letters should be opened, absence from participation at the opening of tender documents by the tenderer or representative and not taking action to enter into an agreement with the British High Commission and send a copy of that to the Promotion Bureau by the contractor as instructed and non- availability of a certificate of a responsible officer ensuring that the trade exhibition stalls had been satisfactorily built, the Bureau had made a payment of Rs. 17,803,508 for the above construction.
- (c) A sum of Rs. 7,800,000 had been spent for the purchase of T shirts for the Tourism Promotion Programme (Leisure Travel and Tourism Fair -2014) held in Moscow, Russia. Nevertheless, that stock of T shirts had not been received to the Bureau and documents prepared for purchases could not be accepted in audit.
- (d) Despite confirming through the Director of material supplying institution that the stock of T shirts printed by spending Rs. 5,824,000 based on the World Tourism Day in the year under review, had been used for the publicity of a political party, action had not been taken even by August 2016, the date of audit to carry out an inquiry in that connection.

- (e) Evidence was not made available to audit to ensure whether the sum of Rs.99,439,900 (excluding tax) paid to two private institutions for the implementation of a programme for promotion of social responsibilities within the field of tourism, had been used for the fulfilment of the objectives of the Bureau. It was revealed that the Minister had appointed a three person committee to examine into this matter. The Chairman of the Bureau had informed the audit that this committee had handed over a report to the relevant Minister and future actions thereon had not been commenced up to now.
- (f) The contract valued at Rs.33.9 million for the creation of Home Stay Publicity Programme had been awarded to a private firm under limited quotations without entering into a written agreement and awarding it to a Government institution. An advance of Rs. 14,500,000 had been paid to the contractor in the year under review and that amount had been retained in hand of the contractor for a period of 8 months without performing the relevant purpose and returned the money in the year 2015 to the Bureau. As such, it was observed in audit that he was allowed to misappropriate public money.

#### **4.3 Uneconomic Transactions**

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Evidence had not been made available to audit that the documents in respect of Familiarization Tours covering several places with tourist attractions in Sri Lanka by spending Rs. 3,506,757 for a group consisting of 12 Chinese media personnel, had been broadcasted on Chinese media. As such, the cost incurred on this tour was observed as an uneconomic expenditure.

#### **4.4 Personnel Administration**

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Even though the approved cadre of the Bureau was 88, the actual cadre was 45, thus the number of vacancies was 43. It was observed that conveying tourism promotional purposes to the optimum level had been obstructed due to the considerable number of vacancies that existed in the Top Management of the Bureau.

#### **4.5 Utilization of Vehicles**

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A payment of Rs. 40 per kilometre had been agreed in hiring motor vehicles and a sum of Rs. 4,784,181 had been paid as vehicle hire charges for running 95,692 kilometres in the year under review. A sum of Rs. 50 had been spent for one kilometer of running due to failure in running the minimum number of kilometres per day.

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

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#### **5.1 Presentation of Financial Statements**

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Even though accounts should be presented to the Auditor General within 60 days of the closure of the year of accounts in terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements of the year under review had been presented to the Auditor General on 05 January 2016, with a delay of 10 months.

## **5.2 Action Plan**

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The following observations are made.

- (a) The strengths, weaknesses, advantages and threats of the Bureau had not been identified and included in the Action Plan prepared for the year under review. Further, a methodology had not been introduced as well for the periodical review of the progress of the activities included in the Action Plan.
- (b) In the examination of the Action Plan and the annual performance reports presented for the year 2014 by the Bureau, it was observed that 94 out of 137 projects expected to be completed during the year could not be fulfilled.

## **5.3 Internal Audit**

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Even though the internal audit function of the Bureau had been assigned to the Internal Audit Division of the Ministry, a copy of the Internal Audit Programme and the copies of half yearly audit reports had not been furnished to the Auditor General.

## **5.4 Procurement Plan**

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Even though a Procurement Plan should be prepared so as to cover a minimum of three years along with the detailed report for the ensuing year in terms of Sections 4.2.1 (a) and (c) of Chapter 4 of the National Procurement Circular No.8 of 25 January 2006, the Bureau had not prepared that plan.

## **5.5 Budgetary Control**

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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 and it had not been prepared 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 100 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 management control.

**6. Systems and Controls**  
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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) Budgetary Control
- (b) Accounting
- (c) Trade and Marketing Activities
- (d) Human Resources Management
- (e) Procurement
- (f) Internal Audit
- (g) Financial Management