

## **Sri Lanka Tourism Promotion Bureau – 2015**

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The audit of financial statements of the Sri Lanka Tourism Promotion Bureau for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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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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 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, as well as evaluating the overall presentation of financial statements.

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 2015 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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The following non-compliances were observed in audit.

(a) Sri Lanka Public Sector Accounting Standard 02

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Cash flows from interest received and paid should be disclosed each separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing activities. Nevertheless, cash flows from interest received and paid had not been separately disclosed by the Bureau.

(b) Sri Lanka Public Sector Accounting Standard 07

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Compute software which is an intangible asset costing Rs.1,592,770 had been shown under Property Plant and Equipment.

#### **2.2.2 Accounting Policies**

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The following observations are made.

(a) The accounting error arisen in accounting the value of revaluation of 2 motor vehicles in the year 2014, had been again incorrectly accounted in the year under review when it was rectified. As a result, the motor vehicle account, accumulated profit account, provision for depreciation on motor vehicles account and the year's depreciation had been overstated, understated, overstated and understated by Rs.2,100,000, Rs.1,600,000, Rs.3,300,000 and Rs.400,000 respectively.

(b) Out of the money remitted to the embassies for promotion activities, the balance of Rs.33,647,581 remained as at the end of the year under review had not been shown in the final accounts as a receivable balance.

(c) Computer software valued at Rs.196,800 purchased for the International Indian Film Festival had not been brought to accounts.

### **2.2.3 Lack of Evidence for audit**

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Confirmation of balances in respect of 4 receivable balances totalling Rs.7,449,005 were not made available for audit.

### **2.3 Unexplained Differences**

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According to the financial statements of the Bureau, the balance payable to the Sri Lanka Tourism Development Authority amounted to Rs.14,600,904 whereas according to the financial statements of the Sri Lanka Tourism Development Authority, the balance due to the Bureau amounted Rs.13,559,157 and as such the difference was Rs.1,041,747.

### **2.4 Accounts Receivable and Payable**

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The following observations are made.

- (a) Receivable balances had consisted of balance of Rs.2,448,920, Rs.1,235,000, Rs.2,105,725 and Rs.791,396,409 outstanding for more than 5 years more than 3 years less than 5 years, more than 01 year less than 3 years and less than 01 year respectively.
- (b) Out of the money remitted to the Embassies, debtor balance outstanding for more than 3 years from the Embassy of China totalled Rs.19,731,593 and the debtor balance due from other Embassies less than a period of one year amounted to Rs.23,785,475.
- (c) Payable balances had consisted of Rs.48,000, Rs.1,229,280, Rs.6,607,680, Rs.921,367 and Rs.5,794,577 remaining outstanding for more than 5 years, more than 4 years, more than 3 years, more than 01 year and less than 01 year respectively.
- (d) An advance of Rs.1,575,000 shown in the accounts for more than 5 years as advances had not been settled even by the end of the year under review.
- (e) A dishonoured cheques valued at Rs.50,000 had been shown as cash and cash equivalent in the financial statements without being shown as a receivable balance.

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

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Non-compliances observed in audit are given below.

**Reference to Laws, Rules, Regulations and Management Decisions**      **Non-compliance**

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- (a) Sub-section 09 of Section 40 of Chapter VII of the Tourism Act No.38 of 2005.      A report on the functions of the Bureau during the year before 3 months, after the end of every calendar year, half yearly accounts before 7 months after the calendar year, an expected plan to be performed by the Bureau within the future periods of 3 years and a statement in respect of achievement and performance of the plan submitted relating to the previous year had not been presented to the Minister.
- (b) Sub-section 5 of Section 10 of the Finance Act No.38 of 1971.      A surplus of Rs.906,783,522 had been earned in the year under review. The balance money from the net surplus of the year after utilizing the money stated in the Finance Act had not been transferred to the Consolidated Fund.
- (c) Letter No.MMI/1/160/(vii) dated 04 March 2014 of the Secretary to the Ministry of Mass media and Information.      Eventhough the Authority had been granted to call for proposals from the institutions internationally recognized on promotion activities in respect of television programs, two institutions had been selected for the estimated value of Rs.50,000,000 on the decision of the Board of Directors without calling for such proposals.
- (d) Public Enterprises Circular No.PED/12 of 02 June 2003 Section 9.14.2      Rules and Regulations in respect of all the matters on Human Resources Management to be formulated should be approved by the Board of Directors and get the sanction of the Secretary to the Treasury. However, the Bureau had failed to comply with this requirement.
- (e) Public Enterprises Circular No.PED/57 of 11 February 2011.      Although the approval of the Minister of Finance should be obtained for sponsorship expenses or donations made for the government institutions or government development projects, exceeding the value of Rs.2,000,000 and sponsorship expenses or donations payable in addition thereto, exceeding Rs.100,000, a sum of Rs.41,767,500 had been paid for sponsorship expenses and donations in the year 2015 without such an approval.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Bureau for the year ended 31 December 2015 had been a surplus of Rs.1,406,783,523 as compared with the surplus of Rs.526,471,234 for the preceding year, thus indicating an improvement of Rs.880,312,289 in the financial results. Decrease in trading expenses by Rs.749,052,169 had mainly attributed to this improvement.

In analyzing the financial results of the year under review and the 4 preceding years, the surplus of Rs.685,411,571 in the year 2011 had increased to Rs.906,783,522 by the end of the year 2015 with fluctuations. In considering employees remunerations, taxes paid to the Government and the depreciation on non-current assets the contribution in the year 2011 amounted to Rs.688,511,162 and it had increased to Rs.1,475,892,784 in the year 2015.

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

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Three cases filed against the Bureau, requesting a sum of Rs.83,899,947 in respect of transactions relating to the International Indian Film Festival and two cases filed against the Bureau by 2 external parties had not been finalized even by the end of the year under review.

#### **3.3 Working Capital Management**

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Working capital ratios computed relating to the year under review and the 2 preceding years observed that there was a high Liquidity position. Utilization of funds in short term investments continuously had been the reason therefor.

### **4. Operating Review**

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#### **4.1 Performance**

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- (a) In terms of Section 40(4) of the Tourism Act No.38 of 2005, objectives of the Bureau are as follows.
- (i) Marketing and Promotion of Tourist filed in Sri Lanka as an excellent tours and travels destination in accordance with the tourist development plan being inquired instructions from the Authority.
  - (ii) Promotions of Sri Lanka as a gateway to the South Asian Region, and
  - (iii) Sri Lanka to become predominant as an excellent Tourist Industry Management and Development Centre within the Region.

- (b) As compared to expenditure on trading activities amounting to Rs.797 million in the year under review, the expenditure in the preceding year amounted to Rs.1,562 million thus the decrease in expenditure had been 49 per cent. Nevertheless, the arrival of tourists in the year under review had increased by 17.7 per cent as compared with the previous year. Similarly, the income earned from tourist industry by Sri Lanka had increased by US Dollars 0.549 billion or 22.58 per cent as compared with the previous year. Accordingly, it was not established that the changes in trading expenditure had not directly affected to the arrival of tourist or the change of income.

#### **4.2 Management Activities**

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The following observations are made.

- (a) The Bureau had entered into an agreement with a private institution in respect of sponsoring contribution to the International Dancing Festival and an advance of Rs.1,500,000 had been paid therefore. As the festival had not been held, the advance paid could not be recovered back.
- (b) Two television programs named as “Global Television Campaign” had been created in the year 2014 through a private institution by incurring an expenditure of Rs.70,321,758 in the year 2014. However, it was not established whether those programs had been televised via Al-Jazeera Television Service even up to 31 May 2017, the date of audit.

#### **4.3 Operating Activities**

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The following observations are made.

- (a) Even though pre-payments of Rs.18,986,187 had been made to the selected institutions for promotion activities carried out in foreign countries through the Ministry of Foreign Affairs, there were no written agreements therefor and no bank guarantees had been obtained as well.
- (b) Evidence to ensure whether the reports of FAM tour made by a team consisting of 12 Chinese Journalist covering several attractive areas in Sri Lanka by incurring an expenditure of Rs.3,506,757 had been published through the Chinese Media was not made available for audit and as such, it was observed in audit that the expenditure incurred on that tour had been fruitless.

#### **4.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) Although the Procurement Committee Decision in respect of Printing of Cricket Posters in the series of twenty twenty ICC World Cup 2014 Cricket Tournament, had been given on 28 April 2014, the Technical Evaluation Committee had met on 08 April 2014, the same day on which tenders were opened and given its report, the receipts of invoice from a private institution for a sum of Rs.700,000 with taxes and the issue of goods received note relating to the receipt of Cricket Posters to the Tourist Promotion Bureau on the same day. As such, it could not be satisfied in audit that this task had been carried out transparently.
- (b) Distribution details of promotional goods purchased in the year 2014 valued at Rs.1,342,096 for the foreign tourist Trade Promotional activities were not made available. It was observed in audit that those goods had not been purchased in accordance with procurement guidelines and the terms of reference.

#### **4.5 Apparent Discrepancies**

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The following observations are made.

- (a) Although a sum of Rs.7,800,000 had been spent for the purchase of T-Shirts for the Leisure Travel and Tourism fair-2014 conducted in Moscow, Russia, the stock of these T-shirts was not received to the stores and the documents prepared in respect of that purchase could not be accepted.
- (b) The written documentary evidence to ensure whether 7 laptop computers and 3 desktop computers purchased by spending a sum of Rs.1,116,000 for the International Indian Film Festival (IIFA) deviating from accepted tender procedure had been taken over by the stores or distributed among the officers was not made available and they had not been made available for physical verification as well.

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

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

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In terms of Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the closure of the year of accounts. However, the financial statements for the year under review had been presented to the Auditor General on 04 April 2016.

#### **5.2 Action Plan**

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Although an action plan for the year had been prepared, a methodology had not been introduced to review the progress of the activities included in that action plan periodically.

### **5.3 Internal Audit**

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Eventhough the functions of the internal audit had been assigned to the internal audit division of the Ministry, an internal audit had not been carried out in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka.

### **5.4 Audit Committee**

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In terms of Paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 the periodical audit committee meetings should be held once in every 3 month. However, only one audit committee meeting had been held for the year under review.

### **5.5 Budgetary Control**

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In comparing the budgeted figures with the actual figures of 28 expenditure items in the year under review, variances ranging from 32 to 100 per cent were observed thus observing that the Budget had not been made use of as an effective instrument of management tool.

### **5.6 Procurement Plan**

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In terms of Section 4.2.1 (a),(b) and (c) of the National Procurement Circular No.08 of 25 January 2006, a procurement plan should be prepared with a detailed plan for the ensuing year along with a plan at least to cover a future period of 3 years. Nevertheless, such a plan had not been prepared.

### **5.7 Unresolved Audit Paragraphs**

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The following observations are made.

- (a) Two gem stones valued at Rs.350,000 purchased devoiding the procurement procedure for the Trade exhibition held in the United Kingdom from 03 to 06 November 2014 and gem stones received by the Bureau free of charge had not been included in the stock books and the value of 2 gem stones received free of charge had not been assessed and brought to account as well. According to the test report of the Gem and Jewelry Authority 4 gem stones, of 1.4, 1.6, 1.63 and 1.54 carats in weight had been received to the Bureau and as such the weight of 2 gem stones purchased for Rs.350,000 had been 5.6 carats. Therefore, the weights of gem stones between the test report of the Gem and Jewelry Authority and the particulars in the invoice had not been tallied.
- (b) T-shirts had been printed by incurring a sum of Rs.5,824,000, said to be printed for the World Tourist Day 2014. According to the statement of the Director of the said supplier they had been printed as a publicity affair of a political party.
- (c) Although a sum of Rs.99,439,900 (excluding taxes) had been paid to 2 private institutions for the implementation of a social Responsibility Promotion Program within the Tourist Sector, it was observed that those payments could not be accepted.



- (d) In awarding the contract to set up the “(WTM)(UK) 2014” Trade Exhibition Stall in the Trade Exhibition held in United Kingdom, invitation letters for calling quotations had been opened before 4 days of the specific date of opening and the tenderer or his representative had not participated in the tender opening. Eventhough instructions had been given to submit a copy of the agreement to the Bureau after entering into an agreement by the contractor, with the British High Commission, action had not been taken accordingly. Without a certificate from a responsible officer stating that trade exhibition stalls had been satisfactorily built, the Bureau had paid a sum of Rs.17,803,508 in this connection.

## 6. Systems and Controls

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

### Areas of Systems and Controls

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### Observations

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| (a) Accounting                | Non-compliance with Sri Lanka Public Sector Accounting Standards in accounting, non-accounting of the value of re-valued assets correctly and non-disclosure of accounts receivable correctly. |
| (b) Budget                    | Considerable differences between the budgeted and actual expenditure.  |
| (c) Human Resource Management | No action had been taken to fill the Staff Vacancies.  |
| (d) Procurement               | No action had been taken in accordance with Procurement Guidelines.  |