

Sri Lanka Convention Bureau - 2016

The audit of financial statements of the Sri Lanka Convention Bureau for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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 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

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 judgment, including the assessment of the risks of material misstatements 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. Sub - sections (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 the 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

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

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 Convention Bureau as at 31 December 2016 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 the Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following Non-compliances had been revealed in audit.

(a) Sri Lanka Public Sector Accounting Standard 02

- (i) Depreciation amounting to Rs.1,982,364 pertaining to the year under review had been shown as Rs.1,763,470 in the cash flow statement.
- (ii) The transfer from building account to building maintenance account Rs.1,801,671 had been shown as Rs.2,020,565 in the Cash Flow Statement and the adjustment should be shown under the cash generated from investment activities instead of showing under non-cash movement in the cash flow from operating activities.
- (iii) The write off Value Added Tax receivable balance of Rs.447,303 had been shown as a cash flow generated by financial activities instead of showing under non-cash movements.

(b) Public Sector Accounting Standard 09

Stocks which had been kept for delivery without a charge or charged with a nominal value should be measured at the lowest value of its cost or the current procurement value whichever is less. But, in respect of the promotional items valued at Rs.345,252 kept to be delivered without any charge in the Bureau had not been followed those instructions.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The Interest income totalled Rs.25,520 had been shown less as a result of interest on fixed deposits amounting to Rs.54,478 of the year 2015 had been shown as an income of the year under review and the interest receivable amounting to Rs.79,998 for the year 2016 had not been brought to the income of the year under review.
- (b) Out of the final promotional items of the stocks which should be accounted as at 31 December of the current year, stocks valued at Rs.1,358,488 had not been included to the financial statements and the value of Rs.345,252 stocks which already included had also been shown in the statement of financial position under trade and other receivable balances.
- (c) Even though, the expenditure amounting to Rs.1,801,671 incurred on maintenance of building had been capitalized erroneously in the year 2015, and while correcting them the adjustment should be made to the prior year retained profit it had been accounted as building maintenance expenditure of the year under review. Accordingly, the profit of the year under review had been shown less by that amount.
- (d) Even though, provisions had not been made on the audit fees payable for the years 2015 and 2016, the payment of audit fees Rs.198,375 for the year 2014 had been accounted as an expenditure of the year under review and as a result the profit of the year had been shown less by that amount.
- (e) The Employees Provident Fund payable account for the year under review and the Expenditure of the Employees Provident Fund expenditure account by Rs.58,272 and the Employees Trust Fund Account and the Employees Trust Fund payable account by Rs.11,652 had been shown in excess.

2.2.3 Lack of Evidence for Audit

Register of Fixed Assets pertaining to property, plant and equipment costing Rs.5,638,960 and original bills and the confirmations on cash receipts from recipients with regard to the trade and promotional expenditure amounted to Rs.8,363,700 had not been made available to audit.

2.2.4 Unexplained Differences

The Long term Investment had been shown in the Statement of Financial Position, as Rs.26,648,658 whereas a balance in accordance to the Bank Renewal Notice it was Rs.27,898,647 and hence a difference of Rs.1,249,989 had been observed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Bureau for the year ended 31 December 2016 had been a surplus of Rs. 30,895,865 as compared with the corresponding surplus of Rs. 27,407,006 for the preceding year, thus indicating an increase of Rs. 3,488,859 in the financial result of the year under review. Even though, the marketing expenditure had been increased by Rs.25,441,814, the increase of Revenue by Rs. 30,636,495 had been the main reason for the improvement of the above financial result.

While analyzing the financial result of the year under review with the four preceding years, the surplus in the year 2012 amounted to Rs.21,704,200 had been fluctuated gradually in the year 2016 and had been Rs.30,895,865. However, re-adjusting of employees remuneration and depreciation on non-current assets to the financial results, the contribution of the Bureau amounting to Rs.29,522,428 of the year 2012 had improved with variances and it had become Rs.44,697,026 in the year 2016.

4. Operating Review

4.1 Performance

The followings are the objectives of the Bureau in terms of Section 42(2) of Tourism Act, No.38 of 2005.

- (i) To promote Sri Lanka as a venture for international, regional and domestic conventions, meetings and exhibitions and as an incentive travel destination.
- (ii) To provide a common policy design to ensure co-ordinated and co-operative development and marketing of Sri Lanka as a venue for international, regional and domestic conventions, meetings and exhibitions and as an incentive travel destination.
- (iii) To co-ordinate and assist the promotion, development and servicing by public and private sector of international, regional and domestic conventions, meetings and exhibitions and an incentive travel.
- (iv) To co-ordinate and co-operate with convention, exhibition and incentive travel organizers in Sri Lanka and overseas to ensure the successful staging of conventions, meetings and exhibitions and the implementation of incentive travel programmes.
- (v) To prescribe and enforce the maintenance of professional standards by persons or organizations involved in handling various aspects of conventions, meetings, exhibitions and incentive travel.

- (vi) To encourage and promote the development of professional skills among the different categories of persons or organizations involved in handling convention, meetings, exhibitions and incentive travel.
- (vii) To affiliate with, obtain membership of, or enter into any agreement with any association or organization engaged in developing or promoting conventions, meetings, exhibitions and incentive travel.
- (viii) To provide guidance to the Bureau to develop, promote and market Sri Lanka as a tourist and travel destination both in Sri Lanka and abroad.
- (ix) To develop and promote adequate, attractive and efficient tourist services, inclusive of the hospitality industry, in a sustainable manner.
- (x) To do in Sri Lanka or elsewhere all such acts and things incidental or conducive to the attainment of the objects of the Bureau.

The following observations are made in relation to achieving of the objectives of the Bureau.

- (a) Out of the above objectives and goals on such (ii), (v), (vi), (vii), (viii) and (ix) could not been unable to achieved.
- (b) According to the Annual Performance Report, out of the allocated sum of Rs.212.85 million only a sum of Rs.104.14 million had been utilized for 14 key activities during the year under review. Which is 49 per cent.
- (c) According to the Annual Performance Report, out of 155 projects scheduled to be completed during the year 2016, only 97 projects had been completed.
- (d) Fifteen awareness projects scheduled to be implemented engaged with domestic tourism organizations with an estimate allocation of Rs.1.2 million and 4 projects on Human Resource Development scheduled to be implemented throughout the year with an allocation of Rs.5 million had not been implemented.

4.2 Management Activities

The Cabinet approval had been received to the Bureau to conduct the Annual General Congress of the Tourism Agency National Association of France in Sri Lanka during the period from 31 October 2016 to 02 November 2016. Approval had been received to spent a some of Rs.51,000,000 out of the estimated amount Rs.95,000,000 by the Sri Lanka Convention Bureau.

Following observations are made according to the information made available to audit in relation to the above Congress.

- (a) It had been confirmed by the email of 06 June 2016 of the Secretary of the Tourism Agency National Association of France that a 300 numbers of foreigners who are participating nevertheless, expenditure estimate of inclusive of numbers of 488 foreigners according to the Cabinet Memorandum of No. MTD & CRA/2016/23 dated 15 September 2016 had been submitted. However only 286 foreigners had been actually participated.

- (b) To conduct the above congress instead of calling for bids separately from five star hotels in Colombo, bids had been obtained from the Chairman of the Hotels Association. It had been revealed that bids were based on the prices of the Gazette Notification of the Tourism Development Authority. According to the Gazette Notification No.1697/24 dated 17 March 2011 it should be deduct a 10 per cent from the invoice price on meetings/ incentives/ conferences/ exhibitions (MICE), and it had revealed that a sum of Rs.740,306 had been paid in excess to 4 hotels as a result of not deducting the same.
- (c) In relation to the annexure of the Cabinet Memorandum dated 15 September 2016 the agreed charges for rooms inclusive of taxes had been US\$ 169 for single rooms and US\$ 180 for double rooms, nevertheless, while vouching the payment vouchers, payments were made in a range between US\$ 169.78 to US\$ 188.93 and as a result, a sum of Rs.329,592 paid in excess for 4 hotels.
- (d) Out of the amount to be charged from the France Tourism Agency National Association, a sum of Rs.4,029,000 had been deducted on behalf of air tickets, the reason for such deduction and adequate evidence to confirm them had not been made available for audit.

4.3 Under Utilization of Funds

An average balance of Rs.110,000,000 was existed in the Fund Management Account during the year under review, hence attention had not of the management being to depositing in a fixed deposit account and earn a higher interest out of the same.

4.4 Staff Administration

Without fulfilling of the basic qualifications according to the recruitment procedure of the Institute a General manager had been recruited based on application submitted inclusive of false information and had been paid a sum of Rs.483,372 as salaries and allowances during the period from December 2016 to January 2017.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be presented within 60 days after the close of the year of accounts in terms of Paragraph 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the year 2016 had been presented to the Auditor General only on 04 April 2017. Thus, a delay of 34 days was observed.

5.2 Action Plan

According to Section 5:1:2 of Public Enterprises Circular No PED/12 dated 02 June 2003, Action Plan should be prepared in a manner that the responsibility of the management can be easily identifiable by reviewing the operating results of immediate 03 preceding years and the strategic plans and the expected objectives and goals can be achieved within the planned duration. However, it had not been so done.

5.3 Internal Audit

An Internal Audit Unit had not been established to carry out internal audit in the Bureau while the transactions of the year under review had not been examined even by the Internal Audit Unit of the line Ministry.

5.4 Procurement Plan

A Master Procurement Plan had not been prepared in terms of Guideline 4.2.1 of the Government Procurement Procedure dated 25 January 2006.

5.5 Budgetary Control

Significant variances ranging between 29 per cent and 433 per cent were observed between the budget and the actual amounts in 21 Objects 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

Weaknesses 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 control.

Areas of Systems and Controls	Observations
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(a) Accounting	Failure to submit comparative information to the cash flow statement.
(b) Stock Control	In relation to promotional stocks all the items had not been included to the Financial Statements.