

## **Sri Lanka Tourism Promotion Bureau – 2016**

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The audit of financial statements of the Sri Lanka Tourism Promotion 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 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, 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 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 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 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 03**

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- (i) The tourism development levy of Rs.28,123,058 received for the year 2015, exceeding the levy estimated for the same year should be recognized as a change in accounting estimate and adjusted during the period of change. Nevertheless, the Bureau had retrospectively adjusted the said change of the estimate of tourism development levy, in the financial statements.
- (ii) The Bureau had adjusted debits and credits totalling Rs.189,974,569 and Rs.84,063,843 to the relevant accounts respectively in the year under review for correction of errors relating to prior years. Nevertheless, necessary disclosures had not been made in terms of the Standard.

(b) **Sri Lanka Public Sector Accounting Standard 08**

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- (i) When there is a present obligation (legal or constructive) as a result of a past event, provisions should be made therefor. Nevertheless, in terms of the judgement given for the Indian Film Award Festival in an unfavourable manner to the Bureau by the end of the year under review, a sum of Rs.30,570,497 payable for preceding years had been paid in the year 2017. However, provisions had not been made therefor in final accounts in the year under review.
- (ii) A sum of Rs.588,197,382 had been disclosed as contingent liabilities in the financial statements as at 31 December 2015 and out of that, a sum of Rs.206,353,290 of the value of Rs.310,762,704 for the year 2014 had been paid to a private media firm on 21 August 2017. When there is a present obligation (legal or construction) as a result of a past event, it should be disclosed in the financial statements. However, it had not been disclosed on the said paid amount in the financial statements in the year under review.

## 2.2.2 Accounting Policies

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Even though provisions of Rs.3,304,920 had been made for bad and doubtful debts in the year under review, it had not been disclosed under accounting policies.

## 2.2.3 Accounting Deficiencies

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The following observations are made.

- (a) According to the confirmation of balances sent by the High Commission of Singapore, the sum of Rs.434,832 receivable to the Bureau had not been brought to account.
- (b) A sum of Rs.26,069,313 had been paid in the year under review by external suppliers as a result of legal action taken against them in preceding years for the recovery of expenditure incurred for the Indian Film Award Festival held in the year 2010. This expenditure had been brought to account as an expenditure of the year under review instead of adjusting retrospectively in the financial statements.
- (c) In adjusting revaluations relating to two fully depreciated motor vehicles costing Rs.7,400,000, the accumulated depreciation of Rs.7,400,000 relating to those two motor vehicles had not been eliminated from the Accumulated Depreciation Account. As such, the accumulated depreciation had been over assessed by Rs.7,400,000 as at 31 December 2016 and the net value of those motor vehicles had been under stated by the similar amount. Moreover, the revaluation surplus which should be Rs.5,300,000 had been brought to account as a revaluation loss of Rs.2,100,000.
- (d) The following differences were observed between the values given in the restated Statement of Financial Position submitted for the year 2015 and values computed by the Audit, relating to those items.

<b>Account</b>	<b>Balance as per the Statement of Financial Position</b>	<b>Balance as per Computation</b>	<b>Difference</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
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i. Accounts receivable	876,256,774	864,656,912	11,599,862
ii. Advances	1,582,500	1,577,350	5,150
iii. Property, Plant and Equipment	38,469,347	32,269,347	6,200,000
iv. Income received in advance	10,766,000	11,319,550	(553,550)
v. Deposits payable	1,029,510	1,085,735	(56,225)
vi. Accrued Expenditure and Creditors	332,835,041	314,420,254	18,414,787

- (e) Provisions for depreciation of Rs.239,475 had been made in the year under review for various equipment valued at Rs.3,193,011 which was included in the Register of Fixed Assets but not presented to Audit for physical verification.
- (f) Accrued expenditure had been overstated in accounts by Rs.8,200,000 as at 31 December of the year under review. As such, the accrued expenditure had been overstated and the surplus of the year under review, understated by the similar amount.
- (g) It was observed at the audit test checks carried out relating to prior year adjustments that the accrued expenditure of Rs.13,994,803 relating to the year 2014 had been written off in the year 2015 and provisions of Rs.135,784,470 had been allocated in the year 2016 for accrued expenditure relating to the year 2014 while a sum of Rs.2,171,110 had been written off. As such, the impossibility of reflecting the financial result and the statement of financial position as well due to failure in accurately estimating the accrued expenditure, cannot be ruled out in audit.
- (h) Fixed assets valued at Rs.1,529,500 purchased for the establishment of the Information Centre at the Mattala Rajapaksa International Airport in the year 2013 had been brought to account as an expenditure instead of taking action to capitalize it. As such, the fixed assets had been understated by the similar amount and depreciation therefor had not been brought to account.

#### **2.2.4 Lack of Evidence for Audit**

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Evidence indicated against the following items had not been made available to Audit.

<b>Item</b>	<b>Value</b>	<b>Evidence not made available</b>
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	Rs.	
(a) Monies remitted to the High Commissions	24,491,929	Confirmation of Balances
(b) Expenditure of the International Indian Film Festival	276,000	Copy of the relevant Judgement
(c) Property, Plant and Equipment	3,193,011	Assets for physical verification

#### **2.2.5 Unexplained Differences**

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The following observation is made.

The following differences were observed in the comparison of balances in accounts indicated in the financial statements of the Tourism Promotion Bureau with balances in accounts of the Tourism Development Fund and the Sri Lanka Tourism Development Authority.

<b>Details of Accounts</b>	<b>As per Accounts of the Tourism Promotion Bureau</b>	<b>As per Accounts of the Tourism Development Fund</b>	<b>As per Accounts of the Tourism Development Authority</b>	<b>Difference</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
(a)Income receivable from Embarkation Tax and Tourism Development Levy	935,491,177	995,584,564	-	60,093,387
(b)Sundry Creditors	18,750,304	-	24,448,523	5,698,219

### **2.3 Accounts Receivable and Payable**

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The following observations are made.

- (a) The receivable balances comprised of outstanding balances of Rs.3,328,920 older than 05 years, Rs. 355,000 older than 03 years and less than 05 years Rs.2,618,893 older than 01 year and less than 03 years and Rs.1,043,291,927 less than 01 year.
- (b) The debtors balance older than 4 years, recoverable from the Embassy of China amounted to Rs.19,731,593 and the debtors balance older than 01 year and less than 03 years and the loan balance less than 01 year recoverable from other Embassies amounted to Rs.16,186,544 and Rs.18,533,891 respectively.
- (c) The payable balances comprised of balances of Rs.1,277,280 older than 05 years, Rs.6,607,680 less than 05 years and older than 04 years, Rs.2,839,476 less than 04 years and older than 01 year and Rs. 8,025,868 less than 01 year.
- (d) The advance amount of Rs.1,575,000 paid to a hotel in the year 2010 for the International Indian Film Award Festival -2010 (IIFA) had not been settled even by the end of the year under review.

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

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Instances of non-compliance observed in audit are given below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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(a) Sub-section 09 of Section 40 of Chapter VII of the Tourism Act, No. 38 of 2005	A report of the functions of the Bureau, half yearly statement of accounts before the end of the seventh month of the calendar year, a plan for a period of three ensuing years, projecting the work to be achieved by the Bureau and statements containing the performance and achievement relating to the plan presented for the previous year, had not been submitted to the Minister before the expiry of a period of three months from the end of each calendar year.
(b) Finance Act, No. 38 of 1971 Sub section 5 of Section 10 and Section 11	A surplus of Rs.233,164,067 had been received after treasury levy in the year under review and action had not been taken to transfer all sums remaining out of the net surplus revenue of the year after utilization of money mentioned in Sections of the Finance Act have been made, to the Consolidated Fund. However, A sum of Rs.2,000 million had been invested in State Banks as short terms investments as at the end of the year under review. Moreover, the approval of the Minister of Finance had not been obtained therefor.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka (i) Financial Regulation 104	Action in terms of Financial Regulations had not been taken in respect of losses caused by misplacement of 03 Laptop computers valued at Rs.308,700.
(ii) Financial Regulation 757	A Board of Survey had not been conducted for the year under review.
(d) Section 9.14.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003	All rules and regulations imposed for all matters relating to 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.

(e) Public Enterprises Circular No.PED/57 of 11 February 2011

Even though the approval of the Minister of Finance should be obtained for expenses on sponsorships or donations made for the government institutions or government development projects, exceeding the value of Rs.2,000,000 and expenses on sponsorships or donations payable in addition thereto, exceeding Rs.100,000, a sum of Rs.26,278,110 had been paid for expenses on sponsorships and donations in the year 2016 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 2016 had been a surplus of Rs.1,733,164,067 as compared with the corresponding surplus of Rs.1,443,689,744 for the preceding year, thus indicating an increase of Rs.289,474,323 in the financial result as compared with the preceding year. The increase in the Embarkation Tax by Rs.270,830,123 had been the main reason for this improvement.

In analyzing the financial results of the year under review and the 04 preceding years, the surplus of Rs.476,209,102 of the year 2012 had deteriorated to Rs.233,164,067 by the end of the year 2016 with fluctuations. In considering employees remunerations, taxes paid to the Government and the depreciation on non-current assets, the contribution of the year 2012 amounted to Rs.508,664,239 and it had increased to Rs.1,823,085,390 in the year 2016.

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

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Seven cases filed against the Bureau by external parties had not been concluded even by the end of the year under review.

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

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The current ratios relating to the year under review and the preceding year were 10:1 and 14:1 respectively, thus observing a high Liquidity position and 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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In terms of Section 40(4) of the Tourism Act, No.38 of 2005, objectives of the Bureau are as follows.

- Marketing and promoting of Sri Lanka directly or indirectly, as a tourist and travel destination of quality, in accordance with the Tourist Development Plan in consultation with the Authority;
- Promoting Sri Lanka as a gateway to the South Asian Region; and
- Making Sri Lanka known as a centre of excellence in tourism management and development in the region.

#### **4.2 Management Activities**

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The following observations are made.

- (a) Even though the Bureau had entered into an agreement with a private institution and paid advances of Rs.1,500,000 in respect of sponsorship to the International Dancing Festival, the relevant festival had not been held and action had not been taken to recover the said advance.
- (b) Two television programs named “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 confirmed whether those programs had been televised via Al-Jazeera Television Channel even up to 30 June 2017, the date of audit.
- (c) Even though the sum of Rs.824,363 overpaid to the Authority by the Bureau for water, electricity and telephone bills in the years 2013, 2014 and 2015 had been identified separately, action had not been taken to recover the same even by 31 December 2016.
- (d) A sum of Rs.25,102,429 submitted by various divisions as accrued expenditure for the year 2016 had been rejected by the Accounts Division. As such, it was observed that the Management had not taken action on a proper basis in the identification of accrued expenditure.
- (e) Replies for 04 audit queries issued in the year under review had not been furnished even by 20 November 2017.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) According to the judgement of the case No.HC(civil)480/2011/DMR which was filed against two institutions named Sri Lanka Tourism Promotion Bureau and Sri Lanka Tourism Development Authority by an external party in respect of incurring expenditure for the International Indian Film Festival, the total payable amount of Rs.23,803,179 had been paid by the Bureau.



- (b) A sum of Rs.135,784,470 relating to the year 2014, which was not identified in the presentation of Accounts in the years 2014 and 2015, had been included in accounts in the year 2016.

#### **4.4 Apparent Discrepancies**

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The following observations are made.

- (a) Even though 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 by the Bureau 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) in the year 2010 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.
- (c) Despite not having appointed a Board of Interview and maintained a file in terms of the Procedural Rules 69 and 74 respectively of the Public Service Commission, published in the Gazette No.1589/30 of 20 February 2009, an unqualified officer had been recruited on contract basis for the post of Director of Event Management without the approval of the Ministry and the Director General of the Department of Management Services and a sum of Rs.1,689,340 had been paid to her for salaries, telephone bills, fuel and vehicle allowances and for the Suwa Dehana Insurance Scheme from December 2014 to May 2016.
- (d) According to the Memorandum of Understanding entered into with the Conference Bureau for holding the Annual Conference of the Association of National Tourist Representatives of France in Sri Lanka, the airline charges should be borne by tourists themselves up to Euro 500. However, the approval of the Cabinet of Ministers had been received to bear the arising airline charges to be borne by a passenger, by the country from which facilities are provided due to discontinuity in direct air travels between Sri Lanka and France. Even though the Bureau should only bear the arising airline charge, the total value amounting to Rs.37,442,851 of the bill submitted by the Airline without determining the charge payable, had been paid by the Bureau without classifying them.

#### **4.5 Personnel Administration**

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The following observations are made.

- (a) More than 20 per cent of the approved cadre of the Bureau had been vacant and out of that, the number of vacancies of officers in senior level stood at 09.

- (b) Contrary to Section 40(7) of the Tourism Act and Procedural Rules Nos. 69, 70, 72, 73 and 74 of the Public Service Commission, an unqualified officer had been recruited to the post of Managing Director of the Bureau and a sum of Rs.1,556,110 had been paid as salaries for the period from March to May 2016.

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

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### **5.1 Action Plan**

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The following observations are made.

- (a) Even though an Action Plan had been prepared for the year under review, a methodology as well had not been introduced for the periodical review of the progress of the activities included in the said Action Plan. However, in the examination of the Action Plan and Annual Performance Reports, completion of 225 out of 534 projects expected to be completed during the year, had failed.
- (b) Even though 122 events had been planned in 21 main countries for the international marketing promotion during the year under review, only 80 events out of them had been held. Out of the sum of Rs.438.36 million paid to foreign suppliers from foreign currency units, a sum of Rs.78.92 million had been directly paid to suppliers by the Bureau instead of making payments through the Ministry of Foreign Affairs.

### **5.2 Internal Audit**

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In terms of Financial Regulation 134(3) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, copies of reports on internal audit for the year under review had not been furnished to the Auditor General.

### **5.3 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 so as to cover at least three years, along with the detailed plan for the ensuing year. Nevertheless, such a plan had not been prepared.

### **5.4 Budgetary Control**

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Variances ranging from 45 per cent to 659 per cent were observed between the budgeted and the actual amounts of 43 objects for the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **5.5 Tabling of Annual Reports**

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The Annual Report for the year 2014 of the Sri Lanka Tourism Promotion Bureau had not been tabled in Parliament even by 30 July 2017.

## 5.6 Unresolved Audit Paragraphs

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The following observations are made.

- (a) Two gem stones valued at Rs.350,000 purchased deviating from the procurement procedure for the Trade Exhibition held in the United Kingdom from 03 to 06 November 2014 and 02 gem stones received free of charge to the Bureau had not been entered in the stock books and the value of 02 gem stones received free of charge had not been assessed and brought to account as well. According to the test reports of the National Gem and Jewellery Authority, 4 gem stones of 1.4, 1.6, 1.63 and 1.54 carats in weight had been received by the Bureau and as such the weight of 2 gem stones purchased for Rs.350,000 had been 5.6 carats. Therefore, the weight of gem stones between the test report of the National Gem and Jewellery Authority and the particulars in the invoice had not been tallied.
- (b) Even though T shirts had been printed by spending Rs.5,824,000 by stating that those were printed based on the World Tourism Day of the year 2014, according to the statement of the Director of the said institution of supplies, those T shirts had been printed for the publicity of a political party.
- (c) Even though a sum of Rs.99,439,900 (excluding tax) had been paid to two private institutions for the implementation of a programme for promotion of social responsibilities within the field of tourism, it was observed that those payments could not be accepted.
- (d) In awarding the contract to set up the Trade Stall in the Trade Exhibition “(WTM)(UK) 2014” held in United Kingdom, 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. Even though instructions had been given that the contractor should enter into an agreement with the British High Commission and a copy of the agreement, be sent to the Bureau, action had not been taken accordingly. Moreover, a sum of Rs.17,803,508 had been paid for the construction of trade stalls without a certificate from a responsible officer stating that those stalls had been satisfactorily built.
- (e) A sum of Rs.3,506,757 had been spent for the FAM tour made by a team consisting 12 Chinese journalists so as to cover several tourist attractions in Sri Lanka and evidence for ensuring that the reports on that tour had been published through Chinese Media, had not been made available to Audit.
- (f) Even though the Decision of the Procurement Committee, in respect of printing of Cricket Posters in the twenty 20 ICC World Cup 2014 Cricket Tournament, had been given on 28 April 2014, the Technical Evaluation Committee had met and issued its report on 08 April 2014 itself on which tenders were opened and the invoice including tax valued at Rs.700,000 had been received from a private institution and the Goods Received Note had been issued relating to the receipt of Cricket Posters to the Tourist Promotion Bureau. As such, it could not be satisfied in audit whether this purpose had been carried out in a transparent manner.

**6. Systems and Controls**  
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Deficiencies in systems and controls 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.

<b>Areas of Systems and Controls</b> -----	<b>Observations</b> -----
(a) Accounting	Failure in accounting in compliance with Sri Lanka Public Sector Accounting Standards, accounting the value of re-valued assets correctly and non-disclosure of accounts receivable correctly and failure in accounting the previous year adjustments accurately.
(b) Budgetary Control	Considerable variances between the budgeted and actual expenditure.
(c) Human Resources Management	Failure in taking action to fill vacancies in the staff.
(d) Procurement	Failure in taking action in accordance with Government Procurement Guidelines.
(e) Control of Register of Fixed Assets	Failure in identifying all the fixed assets and recording them in the Register of Fixed Assets.