

Sri Lanka Tourism Promotion Bureau – 2017

The audit of financial statements of the Sri Lanka Tourism Promotion Bureau for the year ended 31 December 2017 comprising the statement of Financial Position as at 31 December 2017 and the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended and the 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 Responsibility of the Management for 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 risk 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 the financial statements. Sub Section (3) and (4) of the 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

My opinion is qualified based on the matters described in paragraphs 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 Tourism Promotion Bureau as at 31 December 2017 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

2.2.1 Sri Lanka Public Sector Accounting Standard 8

Provisions had not been made in the financial statements for the sum of Rs.3,540,661 payable to a private institute relating to the case filed against to the Bureau due to non- payment of money which should be paid for printed media advertising.

2.2.2 Accounting Deficiencies

The following observations are made.

- a) The receivable tax of Rs.273,563 relating to expenses of trade fair (WTM-UK) held in United Kingdom in the year 2016 had been credited to other income account of the year under review instead of being adjusted to the prior year account. Hence the surplus of the year under review had been overstated by the same amount.
- b) The building rent of Rs. 41,506,650 payables by the Bureau to the Sri Lanka Tourism Development Authority since the year 2010 had not been taken in to account.
- c) Although the computer and accessories valued at Rs. 196,800 purchased for the International Indian Film Festival (IFFA) had been included in the fixed assets register, it had not been taken in to accounts.

2.2.3 Unexplained Differences

A sum of Rs. 25,812,532 had been shown in the financial statements of the bureau as payable to the Sri Lanka Tourism Development Authority whilst the receivable balance shown in the financial statements of the authority was Rs.18,613,438 thus unexplained difference of Rs. 7,199,094 was observed.

2.2.4 Lack of Evidence for Audit

The evidence mentioned against to the following items had not been made available to audit

Item -----	Value -----	Evidence not presented -----
a) Trade expenses	345,570,650	Originals of bills/invoices and other supporting documents
b) Cash balances remained with 08 Embassies	3,837,535	Balance Confirmations
c) Receivable amount for the year 2013 from the Chinese Embassy	19,731,593	Originals of bills and vouchers based for the prior year adjustments

2.3 Accounts Receivable and Payable

The following observations are made.

- a) The receivable balance had consisted with balances of a sum of Rs.5,429,645 over than a period of 5 years, a sum of Rs.871,269 over than a period of 3 years but less than 5 years and a sum of Rs.555,809 over than 01 year but less than 3 years.
- b) The receivable balance out of the remittance made for embassies had consisted with a sum of Rs.2,388,346 more than 3 years, a sum of Rs.1,639,082 more than 01 year and less than 3 years and a sum of Rs.10,198,038 more than 01 year.
- c) The balance shown under the miscellaneous creditors had consisted with payable balances of Rs.7,844,854 more than 5 years, Rs.2,351,583 more than 2 years but less than 4 years and Rs.12,070,254 more than 01 year but less than 2 years.
- d) The balance shown under the accrued expenditure had consisted with payable balances of Rs.249,168 more than 3 years, Rs. 12,992,397 more than 2 years but less than 3 years and Rs.769,907 more than 01 year but less than 2 years.
- e) Advances issued for 4 foreign missions for various purposes since the year 2016 to the year 2017 amounting to Rs. 5,453,130 had not been settled even up to audited date of 30 September 2018.

2.4 Non - compliance with Laws, Rules and Regulations and Management decisions.

The following non- compliances were observed.

Reference to laws, Rules and 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	Statements including a report relating to the activities of the Bureau during the year before expiring 3 months after closing each calendar year, half yearly accounts before expiring 7 months, a plan for the activities expected to be fulfilled for coming 3 years and performance and fulfilment of previous years plans had not been furnished to the Minister.
b) Sub section 5 of Section 10 of the Finance Act No.38 of 1971	Out of the net surplus income for the year, the saving money after using as per the terms of the Finance Act, should be transferred to the Consolidated Fund. Although there was a surplus of Rs.1,939,846,902, actions had not been taken accordingly. However, a sum of Rs.1756 million had been invested in short term investments and approval of the Minister of Finance had not been obtained in this regard.
c) Financial Regulations 102 to 110	Actions had not been taken as per the financial regulations in connection with the loss of 3 laptop computers valued at Rs.308,700.
d) Financial Regulations 169 (2)	A sum of Rs. 1,002,752 relating to 5 cheques could not be recovered because the service had been provided before realizing cheques.
e) Financial Regulation 757 and the Public Finance Circular No.03/2016 dated 31 March 2016	Verification of fixed assets had not been carried out for the year under review.

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 2017 had resulted in a surplus of Rs.1,939,846,902 and as compared with the surplus of Rs. 1,753,397,939 in the preceding year, indicating an increase in the financial results by Rs.186,448,963. Although the trade expenses had increased by Rs.238,708,601, increase of tourist development tax by Rs.318,383,615 had mainly affected to the above improvement.

In the analysis of the financial results for 04 preceding years and the year under review the financial surplus of Rs.6,238,009 for the year 2013 had increased up to Rs.1,939,846,902 in the year 2017 with fluctuations. However, considering the adjustments of employees' remuneration, and depreciation for non-current assets made to the financial results the contribution had increased continuously from Rs.41,362,424 for the year 2013 to Rs.2,048,230,651 for the year 2017.

3.2 Legal Cases Filed Against to the Bureau

Four cases filed against to the Bureau by external parties had not resolved even up to the year under review.

4. Operating Review

4.1 Performance

4.1.1 Operating and Review

The following observations are made.

- a) According to the action plan, the number of sales promotion events planned to be implemented in 31 main countries of the world during the year under review was 144 and out of that 109 numbers had been completed.
- b) Tourist promotion expenses incurred for various foreign market-oriented events conducted from few years to the year under review, income and arrivals had been shown an increase compared with previous years. However according to the data presented, it was observed that there were decrease in the increase rates of tourist income and arrivals. Details are given below.

Year	Tourist expenses	Tourist income	Improvement of income	Improvement rate of income	Arrivals of tourists	Improvement of arrivals	Improvement rate of arrivals
	Rs. Million	Rs. Million	%	%		%	%
2013	472.27	221,147	-	-	1,274,593	-	-
2014	836.10	317,502	43.57	-	1,527,153	19.81	-
2015	646.31	405,492	27.71	-15.86	1,798,380	17.76	-2.05
2016	675.30	512,594	26.41	-1.30	2,050,832	14.04	-3.27
2017	855.18	598,356	16.73	-9.68	2,116,407	3.20	-10.84

- c) Although almost 80 per cent of which the generality of the expenditure incurred to promote tourism had been utilized for main countries (especially western countries) it was observed in analysis of data that increase rate of arrivals of those countries had decreased up to the year under review, and a highest annual rate had been incurred for promotion in China specially as east Asian Country. Nevertheless, it was observed that forefront had taken by China among the countries in which were not in the increasing arrival rate (with minus value). Details are given below.

Country	2016		2017	
	Expenditure Rs. Million	Increasing rate of arrivals %	Expenditure Rs. Million	Increasing rate of arrivals %
Italy	25.31	7.58	40.32	-17.14
German	49.20	2.50	71.26	-17.31
Sweden	15.03	-12.01	21.66	-4.75
France	45.73	2.80	77.71	-11.11
United Kingdom	144.11	4.0	114.20	-8.97
Middle East	60.50	-7.07	101.96	-17.70
China	131.59	-41.14	138.75	-27.41
India	40.87	-17.49	68.76	-4.98
Japan	30.72	8.96	37.01	-5.17
Total	543.06		671.63	

4.2 Management Activities

The following observations are made.

- a) It had been entered in to an agreement with a private Institution to be obtained sponsorship for the International Dancing Festival and a sum of Rs. 1,500,000 had been paid on 3 July 2015 as advance. Although the festival had not been conducted, the advance could not be recovered.
- b) Expenditure in respect of electricity, telephone, trade expenses, and building rent amounting to Rs. 280,495,439 relating to the years 2014, 2015 and 2016 had been recognized in the year 2017 and taken in to accounts retrospectively due to non- availability of proper accounting system for recognition of expenditure relating to the period and commitments as at the end of the year.
- c) Information had not been mentioned in the fixed assets register relating to the stewardship of 50 asset items amounting to Rs.8,766,603 included in the fixed assets register.
- d) Replies had not been made for 3 audit quarries issued in the year under review and 2 audit quarries issued in the previous year even up to 30 September 2018.

4.3 Staff Administration

Although a Commercial Officer of the commerce department and 3 officers included in the approved cadre had been appointed for Sri Lankan Missions in foreign countries (for United Kingdom Market) for promoting tourism irregular appointments had been made for the posts of Director and Tourism promotion Officer which had not included in the approved cadre on contract and casual basis by the management of Sri Lanka Tourism Promotion Bureau. Further it was observed that a sum of Rs.179,438,804 paid for salaries, transport, house rent, telephone, overtime and other allowances for such posts for the period from the year 2008 to 2017 was not economically effective.

5. Sustainable Development

5.1 Reaching Sustainable Development Goals

According to the letter issued by the Secretary to the Ministry of National Policy and Economic Affairs No.NP/SP/SDG/17 dated 14 August 2017 and 2030 Agenda for sustainable development adopted by the United Nations, Sri Lanka Tourism Promotion Bureau had not aware as to how to act with respect of the activities under their purview. Hence sustainable development goals, targets and indicators to measure the achievement of those targets had not been identified.

6. Accountability and Good governance

6.1 Presentation of Financial statements

According to the paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, financial statements should be presented to the Auditor General within 60 days after closing the financial year. However financial statements for the year under review, had been presented to the Auditor General on 29 June 2018.

6.2 Internal Audit

Even though foreign sales promotions activities had been carried out in 31 countries by the Bureau during the year under review, internal audit had been done only for 2 countries.

6.3 Procurement and Contract Process

6.3.1 Procurement

The following observations are made.

- a) According to the Section 4.2.1 (a), (b) and (c) of the National Procurement Guideline No. 08 dated 25 January 2006, a procurement plan should be prepared covering at least 3 years with a detailed procurement plan for the coming year. However, such a plan had not been prepared.
- b) Provisions made in Section 2.3.2 (a), (d), 2.14.1, 6.2.2 and 7.7.1 (a), (b (i)) of the Procurement Guideline had not been followed relating to the payment of Rs. 8,239,199 for creating and installing sales outlet and Rs. 1,031,848 for Dancing Crew made to the suppliers for the International French Tourist Fair held from 26 to 29 September 2017 in France.

6.4 Budgetary Control

Variations in a range from 21 per cent to 100 per cent were observed between the estimated values and actual values relating to 39 items of the year under review thus indicating that the budget had not been used as an effective instrument of management control.

6.5 Tabling Annual Reports

The Annual Report of the Sri Lanka Tourism Promotion Bureau for the year 2015 had not been tabled in the Parliament even up to 30 September 2018.

6.6 Unresolved Audit Paragraphs

The following observations pointed out by the audit report for the year 2016 had not resolved even up to the end of the year under review.

- a) A sum of Rs.5,824,000 had been incurred for printing T-shirts in the year 2014 mentioning that on behalf of the world tourist's day. However as per the statement of the Director of the Institute, it had been printed for advertising purpose of a political party.
- b) Although a sum of Rs. 99,439,900 (excluding Tax) had been paid for two private institutions for implementation of programmes for improvement of social responsibilities in the tourism field, it was observed that said payment could not be accepted.
- c) Opening bids before 4 days from the scheduled date, when awarding contract for construction of sales outlet (WTM) (UK) 2014" of the trade exhibition held in United Kingdom, The bidder or a representor not being participated for opening bids, Although the contractor was informed to enter in to an agreement with the British Embassy and to send a copy of the agreement to the promotion Bureau, actions had not been taken accordingly and a sum of Rs.17,803,508 had been paid for the construction by the Bureau without obtaining a certification from a responsible officer to confirm that outlets had been constructed properly.
- d) A sum of Rs.3,506,757 had been incurred for the FAM tour carried out by a group consisted with 12 Chinese Journalists covering attractive tourist areas of Sri Lanka and evidence not being presented to confirm that information relating to that tour had been published through Chinese Media.
- e) A sum of Rs.7,800,000 had been incurred for purchasing T- shirts for the Leisure Travel and Tourism Fair – 2014 held in Moscow Russia. However, said stock of T- shirts had not been received to the Bureau and the registers prepared for that purchasing could not be accepted.
- f) Evidence had not been presented to confirm that 7 laptop computers and 3 desktop computers purchased in the year 2016 incurring a sum of Rs.1, 116,000 for the International Indian Film Festival (IIFA) deviating the accepted tender procedure had been received by the stores or distributed among the officers and those computers were not presented to the physical verification.

7. 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 control.

Areas of Systems and Controls

Observations

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| a) Accounting | There were deficiencies in internal control for accounting accrued expenditure, recording receivable accounts, accounting fixed assets and counterfoil registers not being maintained. |
| b) Budgetary Control | Considerable variations in budgeted and actual expenditure |
| c) Human Resources Management | Actions not being taken to fill the vacancies. |
| d) Procurement | Action not being taken according to the Government Procurement Guidelines. |
| e) Administration of Fixed Assets | All fixed assets not being identified and taken in to fixed assets register. |