

## **Sri Lanka Tourists Development Authority – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Lanka Tourism Development Authority for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Financial Act No. 38 of 1971 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements of the Authority give a true and fair view of the financial position as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

### **1.4 Auditor's Responsibility in Auditing Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and

obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following.

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Authority, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Authority has complied with applicable written law, or other general or special directions issued by the governing body of the Authority ;
- Whether the it has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 Financial Statements**  
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**1.5.1 Internal Control over the preparation of Financial Statements.**  
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Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with Management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with Management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

**1.5.2 Accounting Deficiencies**  
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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments given by the on Management</b> -----	<b>Recommendation</b> -----
(a) In repayment of taxes applicable to the Tourism Development Fund amounted to Rs.5,267,686 which had been deposited in the bank account of the Authority, had been debited to the Tourism Development Levy Income Account instead of debiting to the accounts payable. As a result, tourism levy income had been understated by that amount.	Agree with the observation and steps will be taken to correct.	Income should be properly taken in to accounts.

- (b) As a result of the unrealized income in the year under review amounted to Rs. 57,842,242 was debited to the receivable tourism development levy account instead of adjusting to the accumulated fund from the embarkation levy which had been estimated as receivable in the financial statements of the preceding year, the tourism development levy receivable for the year under review had been overstated in the financial statements by that amount.
- Agree with observation and steps would be taken to correct.
- Actions should be taken to assess receivable income accurately and to adjust to accounts properly.
- (c) An overprovision made as accrual expenses amounted to Rs. 19,740,544 in the year 2017 had been stated as other income in the financial statements.
- Accrual expenses are taken in to accounts based on information sent by other Divisions.
- Actions should be taken to identify the revenue only as per the Authority's revenue recognition policy and accurate provisions should be made for accrual expenses whilst preparation of financial statements.
- (d) A difference of Rs. 2,202,364 was observed between the balances shown in the financial statements of the Authority as at 31 December of the year under review as receivable from the Sri Lanka Tourism Promotion Bureau and the Tourism Development Fund and the balances set out in the financial statements of the above institutions as payable to
- The responsibility have been assigned to two junior managers of the Financial Management Division to work with the scope of the receivables and payables and steps will be taken to make necessary arrangements.
- Identify the difference between the receivable balance and the balance payable and those should be corrected.

the Authority.

### 1.5.3 Lack of Evidence for Audit

The following observations are made.

<b>Item</b>	<b>Amount Rs.</b>	<b>Audit Evidence not provided</b>	<b>Comments given by the on Management</b>	<b>Recommendation</b>
<b>(a)</b> Investments	55,530,266	Investment certificates or other written evidences	Approval was given to appoint a Committee to conduct an investigation in respect of the items and to implement the necessary recommendations as per that report.	Evidences relevant to the confirmation should be submitted to audit.
<b>(b)</b> Balances receivable	265,143,519	Balance Confirmation Letters	Letters have been sent to the Authority to confirm the balances of trade debtors and Pasikudah water consumer debtors.	Balance Confirmation Letters should be submitted to audit.
<b>(c)</b> Advances	20,072,827	Balance Confirmation Letters	The Finance Division has sent letters to the advance issued sections asking about the current status of such projects. Actions will be taken	Balance confirmation letters should be submitted to audit.

to update the respective accounts as per those answers.

## 1.6 Accounts Receivable

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The following observations are made.

<b>Audit Observation</b> -----	<b>Comments given by the on Management</b> -----	<b>Recommendation</b> -----
<p><b>(a)</b> Out of the balance shown as receivable from the Sri Lanka Institute of Tourism and Hotel Management under trade and other receivables as per the financial statements for the year under review amounted to Rs. 8,385,871 the balance receivable for more than 05 years was Rs.3,043,936 .</p>	<p>Agree with the observation and the responsibility have been assigned by now to two junior managers of the Financial Management Division to work with the scope of the receivables and payables and analyzing transactions relating to these balances have already begun. Steps will be taken to make necessary arrangements as per the result of that and the Financial Regulations.</p>	<p>Actions should be taken to recover the receivables promptly.</p>
<p><b>(b)</b> A balance amounted to Rs.6,806,104 in relation to the period from the year 1990 to 2007 and a balance amounted Rs. 2,171,500 relevant to the period from the year 2012 to 2016 had been</p>	<p>-Do-</p>	<p>-Do-</p>

consisted in the balance of deposits receivable as at 31 December for the year under review amounted to Rs. 9,083,732 .

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

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The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments given by the on Management	Recommendation
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(a) Sub-section 26 (1) of Paragraph IV of the Tourism Act No. 38 of 2005	The Regulations had not been made for tourism, commerce and other activities that can be able to carry out within a declared area in terms of the provisions of the Act.	Actions have been taken regarding this matter by now.	Actions should be taken in accordance with the provisions of the Act.



**(b)** Financial Regulations of  
the Democratic Socialist  
Republic of Sri Lanka

- i.** Financial Regulation 169 (2)      Actions had not been taken as per the Regulation in respect of 22 returned cheques valued at Rs.650,194 from the year 2003 to 2017.      The amount receivable from Kekirawa Rest House valued at Rs.64,973 was deposited to the bank account. Necessary actions will be taken after receiving answers from relevant sections to verify the latest status of returned cheques which could not be recovered.      Actions should be taken in accordance with Financial Regulations.
- ii.** Financial Regulations 396      Actions had not been taken as per this Regulation in respect of the cheques issued but not realized amounted to Rs.4,153,904 during the period from the year 2010 to 2017.      Two junior managers in the financial management division have begun analyzing transactions related to these balances. Actions will be taken according to the result of it and the Financial Regulations.      Actions should be taken in accordance with Financial Regulations.

- iii.** Financial Regulations 757 A survey had not been carried out in respect of library books valued at Rs.1,880,781. Since the books are maintained by the Institute of Tourism and Hotel Management, will be taken to hand over them to that institution. It should act in accordance with the Financial Regulations.
- (c)** Treasury Circular No. 842 of 19 December 1978 and Financial Regulation 502 (2). The Register of Fixed Assets had not been maintained in an updated manner. Although the Register of Fixed Assets is not being maintained, the depreciation for the property plant and equipment was brought to accounts based on transactions reporting for each type of fixed assets maintained in the ledger. It should act in accordance with the Circular and Financial Regulations.
- (d)** Treasury Circular No. IAI / 02/2002/02 dated 28 November 2002 A Register of Fixed Assets had not been maintained in respect of computer accessories and software. Necessary steps will be taken to prepare that record in terms of the Treasury Circular. Actions should be taken to record the assets as per the Circular.

## 2. Financial Review

### 2.1 Financial Results

The operating results of the year under review was a surplus of Rs.435,904,424 and after making prior year corresponding adjustments amounted to Rs. 45,311,569, the surplus of the preceding year was Rs. 443,426,126. Accordingly, a deterioration of Rs.7,521,702 was observed in financial results. Although the embarkation levy and the tourism development levy income were increased by Rs. 62,459,828 and by Rs. 45,973,857 respectively, the increase in trade expenses by Rs.87,266,356 and the decrease of license fee revenue by Rs. 57,628,678 had mainly attributed to the above deterioration.

## 3. Operating Review

### 3.1 Management Inefficiencies

#### Audit Observation

The provision amounted to Rs.2446.90 million had been allocated to implement 178 programmes according to the Annual Action Plan for the year under review. However, only 72 activities had been implemented incurring a sum of Rs.244.33 million.

#### Comments given by the Management

Answer has not been given.

#### Recommendation

Arrangements should be made towards achieving the relevant goals in terms of the Action Plan.

## 4. Accountability and Good Governance

### 4.1 Submission of Financial Statements

The following observation is made.

Audit Observation	Comments given by the Management	Recommendation
<p>Although Financial statements should be submitted within 60 days of the end of the financial year in terms of Paragraph 6.5.1 of the Public Enterprises Circular No. PED /12 dated 02 June 2003, the financial statements 2018 had been submitted on 01 April 2019.</p>	<p>The Second Staff Meeting of the year 2019 was held on 19 March 2019 and on that date, the financial statements for the year 2018 were approved. Accordingly, approved financial statements were handed over to the Audit on 01 April 2019.</p>	<p>Financial statements should be submitted during due time period as per the Circular stipulations.</p>