

## **Head 159 – Ministry of Tourism**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Ministry of Tourism for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, and cash flow statement for the year then ended, 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. The Summary Report containing my comments and observations on the financial statements of the Ministry of Tourism was issued to the Chief Accounting Officer on 20 May 2021 in terms of Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report of the Ministry was issued to the Chief Accounting Officer on 30 June 2021 in terms of Section 11 (2) of the Audit Act. This report is presented to Parliament in terms of Section 10 of the National Audit Act No. 19 of 2018 which is read in conjunction with Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements of the Ministry of Tourism give a true and fair view of the financial position of the Ministry as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the Generally Accepted Accounting Principles.

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

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My opinion is qualified on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities in relation to the Financial Statements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of Chief Accounting Officer on Financial Statements**

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Preparation of financial statements in a manner that reflects a true and reasonable position and determines the internal control required to enable financial statements to be prepared without inadequate false statements that may result from fraud and error in accordance with Generally Accepted Accounting Principles and the provisions of Section 38 of the National Audit Act, No. 19 of 2018 is the responsibility of the Chief Accounting Officer.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Ministry 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.

The Chief Accounting Officer shall ensure that an effective internal control system is maintained for the financial control of the Ministry in terms of Sub-section 38 (1) (c) of the National Audit Act and it should be periodically reviewed the effectiveness of the system and make any necessary changes to keep the system running efficiently.

#### **1.4 Auditor's Responsibility on Audit of Financial Statements**

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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 furthermore;

- Appropriate audit procedures were designed and implemented to identify and assess the risk of possibility of quantitative misrepresentations occurred in financial statements due to fraud or errors in providing a basis for the expressed audit opinion. More than the impact of quantitative misrepresentations due to misrepresentation, the effect of fraud is strong because of malpractice, forgery, intentional evasion, misrepresentation, or evasion of internal controls can lead to fraud.
- Although it is not intended to express an opinion on the effectiveness of internal control of the Ministry, obtained an understanding of internal control in order to plan appropriate audit procedures occasionally.
- Evaluated the appropriateness of the accounting policies followed, fairness of accounting estimates and related disclosures made by Management.
- Evaluated whether the transactions and events underlying the structure and content of the financial statements are appropriately and fairly consisted in and presentation of financial statements including disclosures as a whole.

The Chief Accounting Officer was made aware of important audit findings, key internal control deficiencies and other matters identified in my audit.

## 1.5 Report on Other Legal Requirements

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I declare the following matters in terms of Section 6 (1) (d) and Section 38 of the National Audit Act No. 19 of 2018.

- (a) The financial statements are in consistent with those of the preceding year,
- (b) The recommendations made by me regarding the financial statements furnished for the preceding year had been implemented .

## 1.6 Comments on Financial Statements

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### 1.6.1 Cash Flow Statement

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<b>Audit Observation</b>	<b>Comments of the Chief Accounting Officer</b>	<b>Recommendation</b>
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(a) The non-revenue receipts were Rs.4,953,584 as per the cash flow statement and it was Rs.4,170,478 as per the trial balance submitted for audit. Accordingly, a difference of Rs.783,106 was observed.	The objective of the preparation of cash flow statement is to identify cash receipts and what are the actual payments in cash. Accordingly, it is a usual tradition that the preparation of cash flow is based on cash receipts and cash payments. Receipts and payments made through cross entries are not included in the cash flow statement. Based on that cash flow statement is prepared. Cross entries have been included in the trail balance as well.	As per the paragraph 06 of the Public Finance Circular No. 02/2020 of 28 August 2020, cash flow statement should be prepared on gross basis.

(b) According to the cash flow statement, personal emoluments and operating payments was Rs.134,554,175 and as per the trial balance submitted for audit, it was Rs.165,428,144. Therefore, a difference of Rs.30,873,969 was observed.

In preparing cash flow statement, net cash receipts and payments are taken into consideration. Remaining value obtained after removing cross entries relating to personal emoluments and operating payments have been included in the cash flow statement accordingly and this balance is observed as the value is presented with the cross entries in the trail balance

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(c) Although, the expenses incurred on expenditure on other heads was Rs.29,530,599 as per the cash flow statement, it was Rs.30,390,753 according to the trial balance. A difference of Rs.860,154 was observed consequently.

Actions have been taken to spend the expenses relating to the State Minister of Tourism and his staff for the first few months of the year 2020 by this ministry. As the state ministry has been later established separately, actions have been taken to debit the expenses born during the year to state ministry head – 437. Further, actions have been taken to spend the allocations received from the Ministry of Trade relating to the graduate trainees' salary and SAIL project during the year. It is aggregated to Rs.29,530,599 and is similar to the value shown in the trail balance.

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(d) Even though, the expenditure for construction or purchase of physical assets was Rs.35,494,618 as per the cash flow statement, it was shown as Rs.8,305,632 in the consolidated trial balance. Accordingly, a difference of Rs.27,188,986 was observed.

The actual money spent on the expenditure for construction or purchase of physical assets was Rs. 35,494,618 which was allocated from the national budget for development activities have been included in the cash flow statement.

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(e) Even though, the advance payments as per cash flow statement was Rs.2,644,002, it was Rs.5,570,977 according to the consolidated trial balance. Thus, a difference of Rs.2,926,975 was observed.

The cash flow statement is prepared based on the actual cash receipts and payments and all the cross entries have been taken into consideration in preparing the trial balance. Only an actual loan of Rs. 2,644,002 has been spent under the advance B account of public servants in the year 2020. Out of Rs. 5,570,977, an amount of Rs. 2,926,975 shown in the trail balance is related to the loan settlement of officers who transferred to other ministries. It is shown in the trail balance and not in the cash flow statement as those are made by account summaries through cross entries.

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Loan installments deducted from the salaries of the officers of this ministry and loan balances of the officers who transferred from other ministries and departments which are related to the

(f) Although, the recoveries from advances as per the consolidated trial balance was Rs.5,794,774, it had not been shown in the cash flow statement.

officers' advance B account are considered to be receipts. As all these receipts are received through non cash cross entries, those have not been included in the cash flow statements and receipts and payments made in any manner have been included in the trail balance.

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The cash flow statement is prepared based on the actual cash receipts and payments. Thus, only the net payments relating to the deposit account have been included in the cash flow statement.

(g) Although, the deposit payments was Rs.2,219,779 as per the cash flow statement, it was Rs.2,258,732 as per the consolidated trial balance. Consequently, a difference of Rs. 38,953 was observed.

The cash flow statement is prepared based on the actual cash receipts and payments. Thus, only the net payments relating to the deposit account have been included in the cash flow statement.

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(h) Although, deposit receipts were Rs.2,247,297 as per the consolidated trial balance, it was not shown in the cash flow statement.

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## 1.6.2 Certification of the Chief Accounting Officer

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The Chief Accounting Officer should certify the following matters in terms of provisions set out in Section 38 of the National Audit Act, No. 19 of 2018. However, it had not been so done.

### Audit Observation

### Comments of the Chief Accounting Officer

### Recommendation

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The Chief Accounting Officer and the Accounting Officer should ensure that an effective internal control system for the financial control exists in the Ministry, and carry out periodic reviews to monitor the effectiveness of such systems, and accordingly make any alterations as required for such systems to be effectively carried out. Such reviews should be carried out in writing, and a copy thereof should be presented to the Auditor General, but no statements had been furnished to the Audit that the reviews had been carried out.

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As per F.R. 135 -138, ministry has delegated the authority with internal control and an internal audit unit has also been established with a chief internal auditor.

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After implementing the alterations as required for such systems to be effectively carried out, a written copy should be presented to the Auditor General.

### 1.6.3 Non-compliance with Laws, Rules and Regulations

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Reference to Laws, Rules and Regulations	Observation ----- Non-compliance -----	Comments of the Chief Accounting Officer -----	Reommendation -----
Public Finance Circular No. 2/2020 of 28 August 2020.	(a) Updated organizational chart and information of the approved and recurrent cadre details had not been included in the action plan for the year 2020. Further, action plan had not been updated as well.	As allocations had been made by vote on account for the year 2020, it is observed that the action plan had not been prepared for each period updating organizational chart and approved cadre details.	It should be complied with the circular and action plan should be updated.
	(b) Although the annual performance report for the year 2020 should be prepared, it had not been prepared and furnished to audit.	As per the paragraph 10.2 of the Public Finance Circular No.02/2020 of 28 August 2020, performance report for the year 2020 is now being prepared by the planning division.	It should be complied with the circular.



## 2. Financial Review

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### 2.1 Imprest Management

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#### Audit Observation

#### Comments of the Chief Accounting Officer

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#### Reommendation

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Although, the total imprest planned by the ministry was Rs.370,648,500 for the year under review, the imprest received was Rs.200,037,000. Therefore, only 54 per cent from the planned amount had been received.

At the beginning of the year, imprest plan will be prepared based on the budget allocation and monthly imprest requirements will be made on it. However, if the imprest amount requested in a month is not received fully in that particular month, such non-received amount will be requested in the subsequent months. Due to this, imprest amount requested is shown a higher value. After informing about the imprest requirements to the Treasury Operational Department, the imprest amount which is received will be managed by the ministry.

Estimates should be made accurately.

## 2.2 Expenditure Management

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### Audit Observation

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Extra allocations had been transferred under virement procedure for 05 recurrent expenditure objects and 05 capital expenditure objects amounting to Rs.1,561,600 and Rs.5,313,850 respectively which were aggregated to Rs.6,875,450. Hence the percentage of the allocations transferred with compared to the initial estimated amount was ranging between 3 per cent to 53.87 per cent, the estimates had not accurately been prepared in accordance with the financial regulation No. 50.

### Comments of the Chief Accounting Officer

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Allocations had been mainly transferred under virement procedure for the building maintenance object and shifting of the ministry to another place was the reason for that. Allocations had been transferred like this to settle the expenses for the partition of rooms and to remove the fittings of the previous building.

Due to the pandemic here, many expenses were shown a decrease and it was projected an increase in certain expenditure objects as the ministry was established in a separate place. Accordingly, allocations were transferred from the expenditure objects of which there were savings to the expenditure objects of which allocations were not sufficient.

Further, a 100% reduction of budget was shown relating to the officers uniforms amounting to Rs.3000 allocated from the budget as there were no officers of honorable minister's staff entitled for the uniform allowances and therefore, actions had been taken to transfer to other expenditure object completely.

### Recommendation

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Estimates should be prepared accurately.

## 2.3 Commitments and Liabilities Entered Into

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The following observations are made.

Audit Observation	Comments of the Chief Accounting Officer	Reommendation
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(a) Although, it has been allowed to enter into commitments and liabilities only if savings are remained at the end of the year from the estimated amount as per the financial regulation 94(1), the ministry had entered into liabilities exceeding the savings in 15 expenditure objects aggregating to Rs.8,584,685.	These liabilities have been created for essential activities and except one event; all others have been generated for recurrent expenditure. However, it is kindly informed that the actions will be taken to avoid these kinds of occasions in the future.	Entering into commitments and liabilities should be made in accordance with the financial regulations.
(b) In terms of the paragraph 3.4 of the Guideline 06 of Public Finance Circular, No 02/2020 of 28 August 2020, statement of liabilities and commitments under the note number iii submitted with the financial statements should be reconciled with the statement of liabilities and commitments (SA 92) issued by the treasury for each expenditure heads. However, liabilities and commitments under the note number iii had not been included in that statement. Although, none of the liabilities and commitments which were not recorded in the statement of liabilities and commitments of treasury should be settled considering as expenditures of the preceding year, unrecorded liabilities during the year under review amounting to Rs.15,237,602 had been settled in the year 2021.	Financial statements should be prepared before 28 of February in each year. Various divisions of the ministry are entered into these commitments and liabilities and only the transactions which were reported to the accounts division by the last date of which financial statements are to be prepared, will be included in the financial statements. Hence, preceding year payments are produced to pay without approval till 31 March in accordance with F. R. 115, this situations has been created.	Liabilities and commitments of the ministry should be reconciled with the treasury statement and a liability or a commitment which was not reported in the treasury statement should not be resolved considering as preceding year expenditure.

### 3. Operating Review

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#### 3.1 Keeping Securities by Public Officers

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##### Audit Observation

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Although, the officers who were in charge of receiving government money, revenue, stamps and stores or who were administratively responsible for distributing or issuing government money, stamps and stores and the officers responsible for certifying vouchers and signing cheques on government account should produce securities in accordance with the provision 612 of the Security Ordinance and in terms of the provisions of Financial Regulation 880, securities had not been taken from 20 officers of the ministry.

##### Comments of the Chief Accounting Officer

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Actions will be taken in accordance with Financial Regulation 880.

##### Reommendation

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Actions should be taken in accordance with the Financial Regulation.