

Tourism Development Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Tourism Development Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, 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(3) 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 . My comments and observations which I consider should be reported 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 give a true and fair view of the financial position of the Tourism Development Fund as at 31 December 2019, 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

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 Fund's ability to continue as a going concern, disclosing, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund'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 Fund'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 the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund ;
- 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

1.5.1 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
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<p>(a) The 0.5 per cent Tourism Development Levy charged during the year under review amounting to Rs. 3,384,455 as revenue in the statement of financial performance and without entering the value remitted to the Treasury to the statement of financial performance, only the value to be paid amounting to Rs. 1,626,609 had been stated in the statement of financial position .</p>	<p>Out of the Tourism Development Levy charged as at the end of the year under review amounting to Rs.3,384,455, a sum of Rs.1,757,846 has been remitted to the General Treasury. The accrued expenditure amounted to Rs.1,626,608 can be remitted to the General Treasury only after preparing bank reconciliations and the checking of receipts.</p>	<p>The Tourism Development Levy charged during the year under review should be stated in the statement of financial performance.</p>
<p>(b) An adequate disclosure had not been made by Notes to the financial statements in respect of the sum of Rs. 801,376,894 which was retained from the amount receivable to the Fund to be</p>	<p>Actions will be taken to enter into the disclosures in financial statements in the next financial year.</p>	<p>The amount retained from the receivables to the Fund and the amount to be paid furthermore should be disclosed in the financial statements.</p>

utilized for the development of Palaly Airport from the Embarkation Levy income and a sum of Rs. 248,623,106 payable furthermore in accordance with the decision of the Cabinet of Ministers Cabinet Memorandum No. 19/2797/123/110 dated 06 November 2019 in the year under review .

1.5.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Tourism Act No. 38 of 2005 • Section 23 (2) (a) of Chapter III	• The provisions had not been made available in respect of the deduction of Rs.74,119,772 or 2.5 per cent made as service charges in the year under review relating to 1/3 of the Embarkation Levy collected by the Civil Aviation Authority of Sri Lanka and remit to the Fund.	It has been informed that the General Treasury had agreed to withhold the 2.5 per cent of service charge by the Letter No. PF/R/4/019 dated 29 January 2009.	Arrangements should be made in accordance with the provisions of the Act.

- The Fund should receive one third of the deductible Embarkation Levy collected (33 1/3 per cent) in accordance with the Section. However, only USD 05 had been received to the Fund out of the USD 50 charged in terms of the provisions of the Extraordinary Gazette Notification No. 1999/24 of 27 December 2016 and according to the letter of the Secretary to the Treasury dated 16 December 2016 without amending the Section of the Act.
- However, the Ministry of Finance has ordered to provide USD 35 to the General Treasury by the year 2016 Budget. The Fund receives one-third of the remaining USD 15.
- Arrangements should be made to amend the Act.

- Section 24 (3)

The Rules for the management and administration of the Tourism Development Levy had not been formulated in accordance with the Section. However, the administrative expenses amounted to Rs.4,732,256 had been paid as per the Decision of the Board of the Directors.

The approval of the Board of Directors of the Sri Lanka Tourism Development Authority has been obtained for administrative expenses.

The relevant rules should be formulated for the management and administration of the Tourism Development Levy.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the income generated from operational activities during the year under review was Rs.3,036 million and the corresponding income in the preceding year was Rs.4,318 million, thus indicating a deterioration of Rs. 1,282 million in the income of the year under review as compared to the preceding year. Accordingly, decrease of income in Embarkation Levy in the year under review by Rs.735 million as compared to the preceding year and decrease in Tourism Development Levy income by Rs.558 million had mainly attributed to the above deterioration.

3. Operating Review

3.1 Management Activities

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) Although every ticket issued for a passenger embarking from Sri Lanka on a ship leaving from Sri Lanka should be charged a levy and a part of it has to be remitted to the Fund in terms of Sub-section 2 (b) of the Finance Act No. 25 of 2003, the such levies had not been charged from the passengers travelling by ship and sent to the Fund. Since the 100,614 passengers had embarked during the year 2019, as per the information of Department of Immigration and Emigration, actions had not been taken to recover the Embarkation Levy amounted to US \$ 167,019, that is Rs.29,729,382 for the year under review as US \$ 1.66 per passenger.	The Merchant Shipping Secretariat had informed to Sri Lanka Tourism Development Authority (SLTA) that there was no system to charge Embarkation Levy on passengers' embarking Sri Lanka by ship.	The levy should be charged on every ticket issued to a passenger embarking Sri Lanka by ship in terms of Sub-section 2 (b) of the Act.

(b) Even though the direct remittance to the Bank amounting to Rs. 1,187,785 had exceeded one year, arrangements had not been taken to properly identify and to bring into accounts.

Necessary steps will be brought into accounts as income from levy once the detailed information of those money are identified.

A system should be created to accurately identify the direct remittances made to the bank and to update the accounts.