

Sri Lanka Institute of Tourism and Hotel Management - 2013

The audit of financial statements of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 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 Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the 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 controls 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 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 judgments, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute'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 Institute'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

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my of opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial position of the Sri Lanka Institute of Tourism and Hotel Management as at 31 December 2013 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 Standards

The following observations are made.

Reference	Non-compliance	Observations
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(a) (i) Sri Lanka Public Sector Accounting Standard No. 01 Paragraph 70	Current and Non-current Assets	Short term investments amounting to Rs.100 million had been included as non-current assets in the statement of financial position.
(ii) Paragraph 88	Intangible Assets	The cost of software valued at Rs.736,505 had been included under the tangible assets of property, plant and equipment in the statement of financial position.
(b) Sri Lanka Public Sector Accounting Standard No. 09 Paragraph 15	Stocks	The method of computation of the value of stocks included in the financial statements had not been disclosed.

2.2.2 Contingent Liabilities

Provision or disclosure had not been made in the accounts for the liability that could arise from the arbitration pending in the Department of Labour relating to the non-payment of Employees' Provident Fund contributions for a former Director General who served in the Institute.

2.2.3 Unexplained Differences

Differences were observed between the balances appearing in the financial statements of the Institute and those appearing in the following institutions and the explanations for those had not been furnished to audit. Action had not been taken to reconcile these differences existing over a long period.

Particulars	Balance according to the Financial Statements	Particulars of Subsidiary Financial Records	Balance according to Subsidiary Financial Records	Difference
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	Rs.		Rs.	Rs.
Balances receivable from the Sri Lanka Tourism Development Authority	130,706,926	Accounts of the Sri Lanka Tourism Development Authority	6,511,960	50,151,254
		Sri Lanka Tourism Development Fund	174,346,220	
Balance payable to the Sri Lanka Tourism Development Authority	8,297,267	Account of the Sri Lanka Tourism Development Authority	11,236,982	2,939,715

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the trade debtors balance as at 31 December of the year under review amounting to Rs.15,003,291 a sum of Rs.9,195,387 or 61 per cent comprised balances older than 01 year.
- (b) The Institute had not taken action for the recovery of a sum of Rs.1,503,002 granted in the year 2011 for the implementation of a project despite the completion of the project.
- (c) Action had not been taken to identify and settle the debit balance of Rs.69,659 in the Pay As You Earn Tax Account.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items had not been furnished to audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Fixed Assets	285,731,930	(i) Register of Fixed Assets (ii) Physical Verification Reports (iii) Title Deeds

(b)	Stocks	3,736,772	Physical Stock Verification Reports
(c)	Accounts Receivable	149,420,095	Letters of Confirmation of Balances
(d)	Work-in-progress	2,055,721	Documentary Evidence for accruing (Certified Bills)

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

The following non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

(a) Tourism Act, No. 38 of 2005

(i) Section 39(1)

Non-appointment an Academic Affairs Board by the Institute in consultation with the Minister.

(ii) Section 39(2)

Failure to assign the administration of the Hotel School to a Board in charge of Academic Affairs.

(iii) Section 39(3)

(i) Failure to make regulations on the manner of appointing the members and to the Academic Affairs Board and the manner in which the schools under the Institute should be administered.

(ii) Failure to make regulations for the criteria required of persons seeking to establish, manage or operate privately owned Hotel Schools for training in Tourism and Hotel Management and the manner in which such schools should be administered.

(b) Tourism Hotels Statute of 1999 – Section 02

Even though in running a Tourist Hotel, that business should be registered and obtain a licence for the purpose, the registration certificates and the licence had not been obtained for the Hotel of the Institute.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulation 104(3) and (4)

Even though a motor vehicle of the Institute had met with accidents in two instances those had not been reported to the Police while a preliminary report and a full report thereon had not been furnished to the Secretary to the Ministry.

- (ii) Financial Regulation 756 The Report of the Board of Survey had not been furnished to the Auditor General even up to 08 May 2014.
- (d) Public Administration Circular No. 22/99 of 8 October 1999. Paragraph 1.3.1 Even though the Institute provides group transport facilities to three groups, the approval for that had not been obtained from the Board of Directors.
- (e) Treasury Circular No. 1A1/2002/02 of 28 November 2002 Even though a register should be maintained for the computer hardware and software it had not been so done.
- (f) Public Enterprises Circular No. PED/12 of 02 June 2003.
- (i) Section 4.2.5 Even though the Board of Directors should review the following statements monthly with a view to managing the working capital efficiently, it had not been so done.
- (a) Debtors and Creditors age analysis
 - (b) Stocks age analysis
 - (c) Statement of old, outdated, slow moving stocks and other items.
- (ii) Section 7.2 Even though Manuals and Systems for the major operations of the Institute should have been prepared it had not been so done in connection with the stores and the bar.
- (iii) Section 8.3.5 Six officers who are not entitled to use official motor vehicles for private purposes had been paid a sum of Rs.7,180,560 up to 31 December of the year under review without approval.

2.4 Transactions not Supported by Adequate Authority

Samudra Hotel had made credit sales amounting to Rs.15,003,291 during the year under review without approval.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Institute for the year ended 31 December 2013 had resulted in a surplus of Rs.78,253,762 as compared with the corresponding surplus of Rs.50,896,177, for the preceding year thus indicating an increase of Rs.27,357,585 in the financial result. The increase of the income from the Embarkation Tax by a sum of Rs.52,910,913 and the increase of hotel income by a sum of Rs.6,001,977 had been the main reasons for the increase in the financial results.

3.2 Analytical Financial Review

The income of the Institute for the year under review amounted to Rs.356 million and that as compared with Rs.289 million for the preceding year indicated an increase of 23.1 per cent. Similarly, as compared with the sum of Rs.238 million spent during the preceding year on teaching, training and development works, a sum of Rs.278 million had been spent on those activities during the year under review. As such an improvement of 16.8 per cent was indicated.

3.3 Unusual Increase in Expenditure

The following observations are made.

- (a) A sum of Rs.3,969,065 had been spent on additional duty hours during the year under review and that as compared with the preceding year indicated an increase of 327 per cent.
- (b) A sum of Rs.6,357,762 had been spent as the maintenance expenditure on the office equipment during the year under review and that as compared with the preceding year indicated an increase of 76 per cent.

4. Operating Review

4.1 Performance of Hotel Schools

The following matters were observed in comparing the performance relating to the training of students during the year under review and the preceding years.

Year	2009	2010	2011	2012	2013
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Number of students qualified to follow the courses	768	883	1,545	2,056	2,131
Number of students completed the courses	738	838	1,464	1,772	Result not released.
Number of students abandoned the courses and failed the courses	30	45	81	284	Four students had abandoned the courses.

- (a) Cost per student in the year under review had been Rs.130,642 and that in the preceding year had been Rs.134,578.
- (b) According to the Corporate Plan of the Sri Lanka Tourism Development Authority, targets had been set for the improvement of tourist arrivals up to 2.5 million by the year 2016. Even though it had been expected to train 4,000 human resources concurrently with that target, it appears that according to the existing conditions the achievement of those targets would become problematic.

4.2 Management Inefficiencies

The following observations are made.

- (a) Even though the Tourism Resources Improvement Project had provided the consultancy and assistance to the Hotel Management Institute to obtain the National Vocational Qualification, the Institute had not issued certificates with the National Vocational Qualification up to 31 December of the year under review.
- (b) Out of the number of students who participated in the training programme conducted at a cost of Rs.1,210,000 for the development of English Language 43 per cent had not successfully completed to course.

4.3 Operating Inefficiencies

Even though the Samudra Hotel had 4,745 hotel room days during the year under review for earning income, out of that only 2,015 hotel room days had been marketed by the Institute.

4.4 Idle and Underutilized Assets

In view of the lack of proper management of the floor space available in the office building of the Institute, about 8,547 square feet of floor space remained underutilized during several past years.

4.5 Identified Losses

The following observations are made.

- (a) Even though floor space of about 4,952 square feet of the main building had been allocated to an external institution and a person, a loss of about Rs.16,379,700 had been caused due to allowing for use without collecting charges for water, electricity or rent.
- (b) Attention had not been paid for the effective investment of the surplus money of the Institute during the year under review. In view of the existence of a high current ratio an existence of a poor financial management was indicated.

4.6 Delayed Projects

Even though plans had been made for the establishment of sales stalls on an estimate of Rs.11.70 million for the sale of bakery products and laundry services to the public, that project had not been commenced during the year under review.

4.7 Staff Administration

The following observations are made.

- (a) The approved staff of the Institute had been 160 and the actual staff had been 112 and vacancies in 52 posts and an excess of 04 posts were observed.
- (b) The Scheme of Recruitment approved by the Board of Directors had not been followed in the recruitment of external Lecturers.
- (c) The cost per staff member during the year under review had been Rs.823,138 and that amounted to Rs.615,609 during the preceding year.

4.8 Motor Vehicles Utilization

- (a) The Institute had two motor vehicles and the cost of running those motor vehicles (fuel and maintenance cost) amounted to a high cost of Rs.126 per kilometer.
- (b) A sum of Rs.10,838,754 had been spent on the motor vehicles obtained on hire basis in the year under review. The information on the running of those hired motor vehicles had not been furnished to audit.

4.9 Quality and Reliability of the Management Information System

Even though a sum of Rs.45 million had been spent during the year under review and the preceding years for the purchase of computers and computer software, the Institute had not identified the need for the following management information and established a suitable information system even by the end of the year under review.

- (a) Information System on the Students
- (b) Information System on the Stores Work
- (c) Information System on the Staff

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year 2013 had been presented to the Auditor General only on 22 April 2014, that is, after a delay of 53 days.

5.2 Corporate Plan

Even though the Corporate Plan of the Institute should be prepared at least for a period of three years, approval of the Ministry and the Treasury obtained for the plan and a copy of that presented to the Auditor General in terms of Section 5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the plan relating to the year 2013 had not been presented to the Auditor General.

5.3 Action Plan

The targets that can be achieved had not been clearly and adequately shown in the Action Plan. Progress Reports in support of the achievement of the following matters included in the Action Plan during the year under review had not been prepared.

- (a) Grant of Scholarships to Students
- (b) Creation of new Learning Facilities
- (c) Establishment of a Division for Teaching of Foreign Languages including Chinese Language.

5.4 Internal Audit

Even though the internal audit had been done by the line Ministry the Internal Audit Reports and the Internal Audit Programmes had not been presented to the Auditor General.

5.5 Audit Committee

Five meetings of the Audit Committee had been held during the year under review and the implementation of its recommendations had not been at a satisfactory level.

5.6 Procurement Plan

A Procurement Plan covering a period of 03 years had not been prepared for the Institute in terms of Section 4.2.1 of the Government Procurement Guidelines dated 25 January 2006.

5.7 Budgetary Control

Variances between the budgeted and the actual amounts under 30 items for the year under review ranging from 21 per cent to 410 per cent were observed and as such the budget had not been made use of as an effective instrument of management control.

5.8 Tabling of Annual Reports

The Institute had presented the Annual Report for the year 2011 to the Parliament on 18 March 2014.

5.9 Action on Environmental and Social Responsibilities

The following observations are made.

- (a) A general purposes insurance cover had not been obtained for the Samudra Hotel of the Institute.
- (b) Samples of water of the Samudra Hotels had not been tested to ensure whether it is fit for human consumption.

6. Systems and Controls

Deficiencies in systems are controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of controls.

- (a) Budgetary Control
- (b) Human Resources Management
- (c) Assets Management
- (d) Procurement
- (e) Accounting