

## **Sri Lanka Institute of Tourism and Hotel Management – 2015**

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The audit of financial statements of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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**

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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**

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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 judgement, including the assessment of the risks 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 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 the 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**

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

## 2. Financial Statements

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### 2.1 Qualified Opinion

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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 Institute of Tourism and Hotel Management as at 31 December 2015 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

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#### 2.2.1 Accounting Deficiencies

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Receivable Interest Income amounting to Rs.1,756,148 as at 31 December 2015 had been debited to Investment Account instead of debiting to Receivable Interest Income. Therefore Receivable Interest Income and Investment Value had been overstated and understated respectively by that amount.

#### 2.2.2 Uncompared Accounts

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Uncompared were observed between the balances of the Sri Lanka Tourism Development Authority and Sri Lanka Tourism Promotion Bureau with the under mentioned balances of the Sri Lanka Tourism and Hotel Management Institute.

	Detailed of the Accounts	As per the Account of the Sri Lanka Institute of Tourism and Hotel Management	As per the Account of the Sri Lanka Tourism Development Authority	As per the Account of the Sri Lanka Tourism Promotion Bureau	Difference
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		Rs.	Rs.		Rs.
(a)	Debtors	7,944,793	6,512,810	--	1,431,983
(b)	Creditors	983,872	5,059,699	--	4,075,827
(c)	Debtors	3,841,016	--	Balance was not shown	3,841,016

#### 2.2.3 Lack of Evidence for Audit

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The evidences shown against the following each accounting items had not been furnished for audit.

<b>Item</b> -----	<b>Value</b> -----	<b>Evidence not Furnished</b> -----
	<b>Rs</b>	
(a) Closing stock	2,327,707	(i) Detailed schedules (ii) Board of survey reports
(b) Accounts Receivable		
(i). Trade Debtors	16,103,023	} Conformation of balances
(ii). Miscellaneous debtors and deposits receivable	6,744,480	
(iii). Amount receivable from the Sri Lanka Tourism Development Authority	7,944,793	
(c) Fixed Assets (Opening Balance of the year 2008)	129,897,122	Detailed reports of content of balances
(d) Development cost	1,788,459	Detailed schedule

### **2.3 Accounts Receivable and Payable** -----

The following observations are made.

- (a) Although balance amounting to Rs.5,396,779 from 2012 and Rs.2,238,717 for more than 01 year receivable from Sri Lanka Tourism Development Authority had been identified action had not been taken to recover those balances.
- (b) Balances under Trade Debtors had been consisted of Rs.1,662,788 for more than 03 years Rs.12,206,640 for more than one year and less than 03 years and Rs.3,527,025 for less than one year periods.
- (c) Out of the balances shown under deposit outstanding consist with Rs.7,114,279 over 03 years Rs.3,616,980 over 01 year and less than 03 years and Rs.1,410,000 less than 01 year.
- (d) Out of the balances mentioned under Accrued Expenses consisted with Rs.1,653,760 over 02 years, Rs.11,649,560 over 01 year and less than 02 years and Rs.19,424,716 less than 01 year.

### **2.4 Non-compliance with Laws, Rules, Regulation and Management Decisions** -----

The following non-compliances with Laws, Rules, Regulations and Management decisions were observed.

**Reference to Laws, Rules and Regulations**

**Non-compliance**

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|---|---|
| (a) Section 02 of Tourism Hotels Statute of 1999.                               | Even though Tourist Hotel conducting business should be registered and license should be obtain "Samudra" Hotel conducting by the institute had not been registered and not taken the license.  |
| (b) Treasury Circular No. IAI/2002/02 dated 28 November 2002                    | A register of computer, computer accessories and software had not been maintained in terms of the Circular.   |
| (c) Section 4.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | The Board of Directors should review age analysis of the statement of debtors and creditors, stocks age analysis and old, out dated, slow moving stocks and other items with a view to manage the working capital efficiently, it had not been so done. |
| (d) National Procurement Agency Institution Circular No. 08 of 25 January 2006  | (i) Suppliers had not been registered annually.<br>(ii) Even though the suppliers / agents who response the bids should be called for the opening of bids but it had not been so done.  |

**3. Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the financial results of the Institute for the year ended 31 December 2015 amounted to a surplus of Rs.110,385,385 as compared with the surplus of Rs.146,281,118 for the preceding year, thus indicating an decrease in the financial results by Rs.35,895,733 for the year under review, when compared with the preceding year. Even though Income of the Tourism Development Levy increase by Rs.10,966,361 and Embarkation Levy income increase by Rs.17,852,995 increase of salaries, wages and personal emolument by Rs.49,536,675 had been mainly attributed to the deterioration of the financial results.

When analysing the financial results of the year under review and 04 preceding years, even though that Financial results of 2011 and 2012 had been deteriorated financial results of the years 2013 and 2014 had been improved. The financial results of the year under review had been deteriorate by 24.5 per cent when compared to the year 2014. However, when taking in to consideration employee's remuneration and depreciation on the non-current assets the contribution of the Institute had been Rs.166,366,966 in the year 2011 and it had continuously increased up to Rs.310,384,960 in the year 2015.

### **3.2 Analytical Financial Review**

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The income of the year under review was Rs.441.7 million and when compared to the Rs.425.7 million in the previous year it shown a 3.7 per cent increase. Similarly, when compared to Rs.279 million incurred for teaching, training and development activities in the previous year, Rs.331 million had been incurred in the year under review. Accordingly, it shown a 18.6 per cent increase.

## **4. Operating Review**

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### **4.1 Performance**

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#### **4.1.1 Planning**

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In terms of the Section 4 of the Public Finance Circular No. 01/2014 17 of February 2014 an annual Action Plan should be prepared to achieve the objectives mentioned in the Tourism Activity Act No. 38 of 2005 and also as per the Sub - section (c) of that paragraph an annual activity plan, time line, output and outcome based on the annual budget should be included. Above mentioned Action Plan had not been prepared by the Sri Lanka Institute of Tourism and Hotel Management and Performance Report had not been prepared in the Action Plan prepared. Therefore it was observed that Action Plan of the Institute had not been used as a effective tool of control to evaluate the performance.

### **4.2 Management Activities**

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The following observations are made.

- (a) Even though the Tourism Resources Improvement Project had provided the consultancy and assistance to the Institute to obtain the National Vocational Qualification, the Institute so far had not issued certificates including the national vocational qualification.
- (b) The Institute had not obtained the approval from the University Grants Commission or Territory and Vocational Education Commission for the four years Management Diploma Course conducted by the Institute as a complete degree.
- (c) It was observed that due to not registration of suppliers annually a sum of Rs.4,205,537 had been incurred for purchasing food items at the open market for three months for the Sri Lanka Institute of Tourism Hotel Management and "Samudra" Hotel conducted by the institution.
- (d) Food items valued at Rs.1,066,755 had been purchased from the month of March 2015 to 30 September 2015 by the Management of Bandarawela Hotel School at the open market prices without selecting new suppliers adhering to the Government Procumbent Procedure.
- (e) Ownership of the land where the Sri Lanka Institute of Hotel Management School situated had not been settled even as at the audited date of 26 December 2018.

### **4.3 Operating Activities**

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Even though the Samudra Hotel maintain by the Institute has hotel room nights 4,745 for earning income during the year out of the room nights 1,446 or 30 per cent only could be utilized to the Institute.

### **4.4 Utilization of Vehicles**

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Cost incurred for the vehicles and distance travelled during the year under review relating the leasing vehicles had not been furnished for audit.

### **4.5 Idle and Underutilized Assets**

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The following observations are made.

- (a) Fifty two teak arm less chairs valued at Rs.662,200 purchased in the year 2013 had been amassed unsecured in the open place at the cafeteria without been used.
- (b) Four summer huts constructed at valued of Rs.300,000 in the 7<sup>th</sup> floor of the Hotel School existing in decaying without been taken for use.
- (c) Two thousand one hundred and seventy two square feets of the main building of the Institute had been allowed for the utilization of outside institutions without recovering any charge.
- (d) Does the management of the space of the Head office building belongs to the Institute not get for usage, 3547 square feets of area had not been utilized from beginning of the institute up to the end of the year under review.

### **4.6 Staff Administration**

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The following observations are made.

- (a) There was no proper transfer procedure prepared in transferring of the Officers and transfers had been made by the Management in time to time.
- (b) The approved cadre of the Institute as at the end of the year under review had been 163 and the actual cadre was 101. All three posts such as Director General, Registrar, Director (Finance) had been vacant during the year under review.

## **5. Accountability and Good Governance**

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### **5.1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, although the financial statements should have been presented for audit within 60 days after the close of the year of accounts, the financial statements for the year 2015 had been presented for audit on 19 October 2018.

## **5.2 Internal Audit**

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In terms of the Financial Regulation 134 and the Management Audit Circular No. DMA/2009(1) dated 09 June 2009 an Internal Audit Programme and audit reports had not been furnished to Auditor General.

## **5.3 Procurement Plan**

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

## **5.4 Budgetary Control**

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Variances between the budgeted and the actual amounts under 22 income and expenditure items for the year under review ranging from 23 per cent to 100 per cent were observed and as such the budget had not been made use of as an effective instrument of Management Control.

## **5.5 Tabling of Annual Reports**

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The Institute had not tabled the Annual Report even by 30 November 2018 relating to the year 2013 to Parliament in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

## **5.6 Unresolved Audit Paragraphs**

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Following deficiencies pointed out in 2014 Auditor General Report had not been rectified even as at the end of the year under review.

- (a) Two hundred tables and two hundred chairs valued at Rs.2,725,000 had been purchased during the year 2013 for the class rooms of Colombo Hotel School. Even though the Technical Evaluation Committee had rejected the lowest bid as it was disagreed with the specification submitted by the organization, the item purchases were contrary to the said requirements of the specification.
- (b) The Institute had issued 245 certificates in the year 2014 and 900 certificates in the previous years without any basis to the winners in respect of competitions held in collaboration with the Tourist Colleges of the University Graduates Association and 54 students of a private Hotel School neither belongs to the Hotel School of the Institute nor to the Local Hotel School owned by the Institute. At a test check it was found that a Senior Lecturer of the Institute had signed on one certificate issued by the Graduate Association instead of the designation of the Director General of the Institute.
- (c) Liquor receive for the Hotel School had been kept without documenting those in custody of the Head of the Food Department without been handed over to the stores. It was observed at a physical verification that 12 bottles of wine valued at Rs.35,000 were missing and further shortages of 06 liquor bottles and there was no evidence whether those liquor had been physically verified.

- (d) Action had not been taken to recover the cost about Rs.887,028 incurred by the Institute to provide laundry service to the staff of the Institute during the period from the month of April 2013 to 30 June 2014.
- (e) A sum of Rs.972,865 had been paid to two visiting lecturers recruited to the Food Section of the Institute for exceeding lecturing hours worked according to the class record books during the month of March 2013 to June 2014.

## 6. Systems and Controls

Deficiencies in systems and 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 control.

<b>Areas of Systems and Control</b>	<b>Observation</b>
(a) Fixed Assets Management	A Fixed Assets Register had not been maintained.
(b) Inventory Control	Inventory Registers had not been maintained for certain Sections and Board of Survey Reports had not been submitted.
(c) Stock Verification	Non availability of the names and signatures of the officers in some Board of Survey Reports who participated for the Board of Surveys. A responsible officer had not initial for the amendments of data entered into the Board of Survey Reports.
(d) Budgetary Control	<p>(i) Even though it was estimated for some objects no expenditure incurred during the year.</p> <p>(ii) Expenditure had been incurred in respect of unbudgeted expenditure and income had been collected which was not budgeted during the year under review.</p>