

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of the Tourism and Hotel Management for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported to Parliament appear in this report.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements of the Institute give a true and fair view of the financial position of the Institute as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards (SLPSAS).

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 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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.
- Obtained 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 Institute'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 Institute'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 disclosures, and the transactions and events on which the content is based are appropriately and fairly included in the financial statements.

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 Institute, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute ;
- Whether the Institute 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
(a) Although, assets and liabilities should not be set off in terms of the Standard No. 01, a bank overdraft of Rs.1,904,453 had been set off against the cash balance.	Agreed. Corrections will be made as prior year adjustments in the financial statements for the year 2020.	Assets and liabilities should not be set off in accordance with the Standard No. 01.
(b) A sum of Rs.905,940 of gratuity payments had been recognized as cash flow from investing activities instead of recognizing as cash flow from operating activities and an interest income amounting to	Agreed. Corrections will be made as prior year adjustments in the financial statements for the year 2020.	Cash flow statement should be prepared as prescribed by the Standard No.02.

Rs.61,430,740 had been aggregated into investment cash flow under cash flow from investing activities without showing interest income separately in contrary to Standard No: 02.

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| (c) | As per of the Standard No: 07, increase or decrease of revaluation amount of one class of asset cannot be compensated to another class of asset's value. However, revaluation deficit relating to telecom installation, fixtures and fittings and office equipment aggregating to Rs.11,424,099 had been compensated ignoring the particular class of asset. | Agreed. Corrections will be made as prior year adjustments in the financial statements for the year 2020. | As per the Standard No.07, increase or decrease of revaluation amount of one class of asset should not be compensated to another class of asset's value. |
| (d) | Although net amount of defined benefit liability (asset) should be disclosed in the statement of financial position as per the Standard No: 19, investment of gratuity amounting to Rs.15,637,414 and provision for retirement gratuity amounting to Rs.39,776,194 had been separately shown in the statement of financial position. Consequently, the net defined benefit liability of the Institute amounting to Rs.24,138,780 had not been disclosed in the Financial Statements. | Agreed. Corrections will be made as prior year adjustments in the financial statements for the year 2020. | As per the Standard No.19, net amount of defined benefit liability (asset) should be disclosed in the statement of financial position. |

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Although, a rent income which had been accounted as receivables in year 2014 from Tourist Police Unit amounting to Rs.3,192,000 and had been confirmed as non-receivable was not adjusted even as at 31 December 2019.	Agreed. After informing to the Board of Management and obtaining their approval, adjustments will be made in the financial statements.	Required adjustments should be made in the financial statements for the income which are not received.

1.5.3 Unreconciled Accounts

The following observations are made.

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference	Management Comment	Recommendation
(a) Receivable Accounts from Sri Lanka Tourism Development Authority	3,267,191	6,512,810	3,245,619	These institutional balances are reconciled at present and this matter will be sorted out in 2021.	Actions should be taken to adjust the accounts after a detailed checking.
(b) Payable Accounts for Sri Lanka Tourism Development Authority	No Value	8,653,724	8,653,724	These institutional balances are reconciled at present and this matter will be sorted out in 2021.	Actions should be taken to adjust the accounts after a detailed checking.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation

The value of trade debtors as at 31 December 2019 was Rs.26,244,031. However, confirmations had not been received even from a single debtor as at 31 January 2021 and a policy for the provision of doubtful trade debtors had not been introduced. Further, trade debtors aggregating to Rs.13,949,000 had remained outstanding for more than five years and it was 53 per cent from total debtors as at 31 December 2019. Out of them, one debtor valued at Rs.4,068,000 had been referred to the Attorney General's Department for recovery actions by the Institute.

Comments of the Management

Agreed. A committee has been appointed to check the long term outstanding and management committee reviews the progress monthly. Out of the long term, A sum of Rs.5,140,571 which was outstanding for long term is related to the Ministry of Economic Development and Rs.1,118,000 belongs to Lanka Police Department. Amounts related to Sri Lanka Tourism Development Authority and Sri Lanka Tourism Promotion Bureau will be rectified through reconciliation process. Out of the total outstanding, around Rs.1.4 million is related to the former Minister's office and we have already informed to the Minister of Tourism about the recoverability of the values in writing. Actions will be taken to solve these matters in 2021.

Recommendation

A policy for doubtful debtors should be introduced and actions should be taken to recover the debtor balances.

1.7 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) Sub- section 39 (1) of the Tourism Act No.38 of 2005	Actions had not been taken to appoint an Academic Board in consultation with the Minister even as at 31 January 2021.	Answer has not been given.	An Academic Board should be appointed in consultation with the Minister.
(b) Public Enterprises Circular No. PED/12 of 2 June 2003			
(i) Section 6.5.1	Although the financial statements should be furnished to Auditor General within 60 days after the closure of the year of accounts, the financial statements for the year 2019 had been presented on 01 January 2021 with 306 days in delay.	An answer has not been given.	Financial Statements should be furnished to Auditor General after the closure of 60 days of the year of accounts in terms of the provisions of the circular.
(ii) Section 6.5.3	The Institute had not taken actions to table Annual Reports in Parliament from the year 2015 to 2018 even by 31 January 2021.	An answer has not been given.	Annual reports should be tabled at the Parliament in terms of the provisions of the Circulars.

(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulation 371 (2) (b)	Although a Sub- imprest should be settled immediately after the completion of the purpose for which it is granted, a delay ranged from 16 days to 467 days had been observed for the settlement of Sub- imprest ranging from Rs.2,100 to Rs.500,000 provided at 54 instances.	An answer has not been given.	A sub- imprest should be settled immediately after the completion of the purpose.
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2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.1,983,966 and the surplus for the preceding year as against to that was Rs.150,814,061. Accordingly, a deterioration of Rs.152,798,027 was observed in financial results. The reduction in income from tourism development levy and embarkation levy by Rs.109,521,464 and increase in expenditures by Rs.94,915,533 as well were the main reasons for this deterioration.

3. Operational review

3.1 Uneconomic Transactions

Audit Observation -----	Comments of the Management -----	Recommendation -----
Although a sum of Rs.3,771,216 had been incurred to develop an ERP system in 2014, it has been failed during the implementation process due to the incompatibility of the requirement of the Institute. However, no action had been taken to rectify it till the date of audit.	Only a sum of Rs.2,262,730 had been paid for the software system. Balance is shown as to be paid as at 31.12.2009. The amount shown as liabilities will be adjusted in the financial statements in 2020. Actions will be taken by the Institute to rectify this issue in 2021.	Systems should be developed as compatible with the requirements of the Institute.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Actions had not been taken even as at 31 January 2021 to acquire a vehicle which had been received from a Ministry in 2011.	Agreed.	Actions should be taken to obtain the vehicle ownership.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Although 2,555 Hotel Room Nights were available in Samudra Hotel during the year under review to earn revenue, only 479 Room Nights or 19 per cent of the availability had been occupied.	Agreed.	Actions should be taken to utilise the rooms in maximum capacity.

3.4 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
The approved cadre of the Institute was 217 and the actual cadre was 193. Accordingly, 24 positions were vacant and one post of Deputy Director General (Non- Academic), one post of Director (Commercial), five posts of Senior Lecturers and one post of Assistant Lecturer were among the vacancies.	Agreed.	Actions should be taken to fill the vacant posts.

3.5 Accountability and Good Governance

Audit Observation	Comments of the Management	Recommendation
Even though, a sum of Rs.6 million had been allocated for 03 activities as per the Action Plan for the year 2019, such activities had not been implemented during the year under review. Further, less than 50 per cent of money had been utilized during the year for 10 activities presented in the Action Plan.	Agreed.	Actions should be taken to make the action plan succeeded more efficiently.