

Sri Lanka Institute of Tourism and Hotel Management - 2020

1 Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 Paragraph 1.5 of this 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 2020, and of their financial performance and their 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 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) In terms of the standard No.02, building rent income of Rs.3,490,300 received in cash and interest income of Rs.41,542,500 had been understated and shown under the investment activities of cash flow statement.	<p>Not identifying building rent income of Rs.3,490,300 under investment activities will be rectified in the year 2021.</p> <p>Interest income for the preceding year (2019) received during the year under review and interest for the year under review amounting to Rs.41,373,394 has been shown under the investment activities of the cash flow statement.</p>	Cash flow statement should be prepared in accordance with the Standard No.02.

1.5.2 Accounting Deficiencies

Audit Observation

Comments of the Management

Recommendation

(a) Although, registration fees, exam fees and course fees of 9 Hotel Schools should be Rs.22,176,300, it had been recognized as Rs.15,539,450 in cash basis. Due to that, revenue and receivable income for the year under review had been understated by Rs.6,636,850 in the financial statements. Therefore, current assets and surplus for the year under review had been understated in the financial statements.

Actions will be taken to rectify in the year 2021.

Revenue of Hotel Schools should be calculated accurately.

(b) Although, a rent income receivable amounting to Rs.3,192,000 from Tourist Police Unit in 2014 had been recognised as income and shown under debtors receivables, there was an uncertainty of the recoverability of this amount. However, the impairment value for that had not been calculated and shown in the financial statements.

After inquiring from the Board of Directors, actions will be taken to rectify in the year 2021.

Adjustments should be made for the rent income which had not been received physically.

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					
(i) Sri Lanka Tourism Promotion Bureau	3,198,800	52,675	3,146,125	After discussing with relevant institutes, it will be rectified in 2021.	Actions should be taken to rectify.
(ii) Sri Lanka Tourism Development Authority	7,481,441	188,669	7,292,772	After discussing with relevant institutes, it will be rectified in 2021.	Actions should be taken to rectify.
(b) Payable Accounts	0	8,971,304	8,971,304	After discussing with relevant institutes, it will be rectified in 2021.	Actions should be taken to rectify.
(i) Sri Lanka Tourism Development Authority					
(c) Distress Loan	1,260,594	0	1,260,594	After discussing with relevant institutes, it will be rectified in 2021.	Actions should be taken to recover the loans.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation

The value of trade debtors as at 31 December 2020 was Rs.25,517,565. However, confirmations had not been received even from a single debtor as at 31 March 2021. Further, out of those debtors, aggregated value of Rs.15,987,312 had been outstanding for more than 05 years. It was 63 per cent from total trade debtors. 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 and another amount of Rs.5,140,571 had been shown as a receivable balance from former Ministry of Economic Development. However, actions had not been taken to make provisions for impairment of debtors.

Comments of the Management

Letters had been sent for the confirmations of debtors for the year 2020. Actions will be taken to introduce a policy for debtors and doubtful debts in 2021.

Recommendation

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

1.6.2 Payables

Audit Observation

Although, value added tax payable amounting to Rs.1,452,439 had been continuously shown in the financial statements from prior to the year 2014, actions had not been taken to settle those tax

Comments of the Management

Actions will be taken to rectify in the year 2021.

Recommendation

Actions should be taken to settle the taxed money.

amount even at the end of the year under review.

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.	Recommended names have been forwarded to the Minister in order to appoint an Academic Board as per the Section 39(1) of the Tourism Act No.38/2005.	Actions should be taken to appoint an Academic Board.
(b) Section 6.5.3 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	Actions had not been taken to table the annual reports from 2017 to 2019 at the Parliament even as at 31 March 2021.	Actions had been taken to table the annual reports of 2015 and 2016 at the Parliament. Copies of the annual reports of 2017 and 2018 had been furnished to the Ministry of Tourism for further actions. Annual reports in 2019 are being printed.	Actions should be taken to table the annual reports at the Parliament.

- (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 20 days to 236 days had been observed for the settlement of Sub- imprest ranging from Rs.5,000 to Rs.250,000 provided at 22 instances.
- Giving advances had been rectified by issuing an internal circular.
- A sub- imprest should be settled immediately after the completion of the purpose.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.204,886,499 and the surplus for the preceding year as against that was Rs.629,050. Accordingly, a deterioration of Rs.205,515,549 was observed in financial results. The reduction in income from tourism development levy and embarkation levy by Rs.270,598,074 was the main reason for this deterioration.

3. Operational review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Management	Recommendation
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Although a sum of Rs.3,771,216 had been incurred to develop an information system in 2014, it had been given up due to the incompatibility with the requirements of the Institute.	Actions will be taken to write off the amount of Rs.2,262,730 which was spent in 2014 from the books of accounts after inquiring from the Board of Directors.	Systems should be developed as compatible with the requirements of the Institute.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken even as at the end of the year under review to acquire the vehicle or to record in the books of accounts after a valuation. This vehicle had been received from the Ministry of Economic Affairs in 2011 and is being used by the Institute until the year under review.	Actions will be further taken to acquire the ownership of the vehicle received from the Ministry of Economic Affairs.	Actions should be taken to obtain the vehicle ownership and to record in the books of accounts after taking a valuation.
(b) Without registering suppliers for the year under review, raw materials at a market price of Rs.10,406,662 had been purchased from the suppliers who registered in 2019 deviating from the prices agreed in 2019. Reasons for this deviations had not been furnished to audit and approval from the Board had also not been taken.	Procurement process of registering suppliers for the year 2019 was delayed due to several reasons and tenders were offered to supply raw materials from April 2019 to May 2020. Hence, procurement process of re-registering suppliers for a few months of the year 2020 is not economical; the registration period of the registered suppliers for the year 2019 had been further extended.	Actions should be taken to register the suppliers and approvals should be taken from the Board of Directors for the deviation.

3.3 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
The approved cadre of the Institute was 217 and the actual cadre was 191. Accordingly, 26 positions were vacant and one post of Deputy Director General (Non- Academic), one post of Director (Commercial),	Actions will be taken to fill the relevant vacancies as per the requirements in the future.	Actions should be taken to fill the vacant posts.

08 posts of Senior Lecturers and one post of Assistant Lecturer were among the vacancies.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
Even though, a sum of Rs.17.1 million had been allocated for 09 activities as per the Action Plan for the year 2020, none of the activities had been implemented during the year under review. Establishing a stores management system and fixed asset management system which were allocated Rs.7 million were also in it. Further, less than 50 per cent of money had been utilized during the year for 4 activities presented in the Action Plan.	Although, most of the activities included in the action plan could not be executed due to the prevailing Covid 19 pandemic, bid evaluation process of establishing stores management system is in progress.	Action plan should be used as an effective management tool.