

## Sri Lanka Institute of Tourism and Hotel Management – 2017

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The audit of operations of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2017 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. The financial statements for the year 2017 which should be presented in terms of Section 13(6) of the Finance Act were not presented even by 31 October 2018. My observations on the performance of the Institute for the year under review which I consider should be presented to Parliament in terms of Article 154(6) of the Democratic Socialist Republic of Sri Lanka, 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.

## 2. Financial Statements

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### 2.1 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, the financial statements should be presented within 60 days after the closure of the year of accounts. Nevertheless, the financial statements for the years 2016 and 2017 had not been presented to the Auditor General even by 31 October 2018.

### 2.2 Existence of Assets and Liabilities

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Details on assets, liabilities, income and expenditure shown in the financial statements as at 31 December 2015 prepared for the last time by the Institute are as follows.

<b>Item of Financial Statement</b>	<b>Value</b>
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<b>Assets</b>	
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	Rs.
Non-current Assets	619,925,910
Current Assets	402,380,412
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Total Assets	1,022,306,322
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Liabilities	
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Current Liabilities	105,623,092
Net Assets/Equity	916,683,230
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Total Liabilities	1,022,306,322
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Total Income	441,675,374
Total Expenditure	(331,289,989)
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Surplus	110,385,385
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### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
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(a) Sub-sections 39 (2), (3) of the Tourism Act, No.38 of 2005	An Academic Affairs Board had not been appointed.
(b) Section No.02 of the Tourist Hotels Code of 1999	In the running of a tourist hotel, the business should be registered and a licence should be obtained. However, the Samudra Hotel which is managed by the Institute had not been registered and obtained a licence.
(c) Section 03 of the Stamp Duty Act, No.12 of 2006 as amended by the Gazette Extraordinary No.1530/13 of 01 January 2008	In making payments, a stamp duty of Rs.25 should be charged on behalf of the Government for every payment exceeding Rs.25,000. Nevertheless, instances were observed in which the Institute had failed to take such action.
(d) Treasury Circular No.842 of 19 December 1978	Even though a Register of Fixed Assets should be maintained, action had not been taken accordingly.
(e) Treasury Circular No.IAI/2002/02 dated 28 November 2002	Even though a Register on Computer Hardware and Software should be maintained, action had not been taken accordingly.

(f) Section 4.2.5 of Public Enterprises Circular No.PED/12 of 02 June 2003 The statements such as the Age Analysis on Debtors and Creditors, Age Analysis on Stocks, the statement on old and outdated stocks and slow moving stocks and other items should be reviewed monthly by the Board of Directors for the efficient management of the working capital. However, action had not been taken accordingly.

(g) **Financial Regulations of the Democratic Socialist Republic of Sri Lanka**  
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(i) Financial Regulations 104 (3) and 104 (4) The preliminary investigation report relating to 02 motor vehicle accidents occurred in the year 2017 which should be submitted within 07 days or the final investigation report which should be submitted within 03 months had not been submitted even by 31 July 2018, the date of Audit.

(ii) Financial Regulation 371(2)(b) A Sub-imprest may be granted for a certain specific purpose by an Accounting Officer not to exceed a maximum of Rs.100,000 in one instance. However, contrary to it, a sum of Rs,150,000 had been granted as Sub-imprests in one instance. Even though the grant of ad-hoc Sub-imprests should be limited to Staff Officers, Sub-imprests totalling Rs.17,500 had been granted in 02 instances to officers recruited on contract basis to the Institute.

(iii) Financial Regulation 371(5) The ad-hoc Sub-imprest should be granted to the officer on an immediately close date to the relevant specific purpose and the Sub-imprest should be settled within 10 days after the completion of the said purpose by the officer. Nevertheless, a period ranging from 26 days to 302 days had lapsed in settling the ad-hoc Sub-imprests granted from Rs.4,000 to Rs.90,000 in 33 instances.

Moreover, in the payment of Sub-imprests, it should be settled not later than the 31<sup>st</sup> of December of the financial year in

which the Sub-impresst was issued. However, action had not been so taken in respect of Sub-impressts totalling Rs.35,000 granted in 02 instances.

(iv) Financial Regulation 756

Even though the Board of Survey had been conducted for the year under review, the reports relating thereto had not been presented to the Auditor General even by 31 August 2018..

(v) Financial Regulation 1642

All accidents met by the officers using the motor vehicles or by the drivers in charge of those motor vehicles during the absence of the said officers should be reported to the nearest police station and obtained a police report. However, action had not been so taken in respect of an accident occurred to a motor vehicle on 06 June 2017.

(vi) Financial Regulation 1646

The daily running charts along with the originals of monthly summary reports on journeys written in Form 268 (a) should be presented to the Auditor General before the lapse of the 15th day of the following month by the officers in charge of motor vehicles. Nevertheless, the said instructions had not been followed relating to 05 motor vehicles of the Institute.

(vii) Financial Regulation 1647(e)

The officers in charge of the motor vehicles should maintain a list of motor vehicles including the make, model and registration number of motor vehicles in their custody. However, action had not been so taken.

## **2.4 Transactions not supported by Adequate Authority**

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According to Approval No.2014/55/09 dated 06 May 2014 of the Board of Directors, the allowance paid per hour to Visiting Lecturers based on their qualifications and experience, had been revised without the approval of the Board of Directors and according to revised fees from January to June in the year 2017, an overpayment of Rs.662,750 had been made as allowances for Visiting Lecturers.

### **3. Operating Review**

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#### **3.1 Performance**

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##### **3.1.1 Planning**

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The following matters were observed in respect of the Corporate Plan for 2016-2018, the Action Plan for 2017 and the Performance Report for 2017 of the Institute.

- (a) The approval of the Board of Directors had not been obtained for the Action Plan for 2017 of the Institute.
- (b) The Performance Report for the year under review had not been prepared in accordance with the Action Plan of the Institute, thus observing that the Action Plan could not be made use of as an effective instrument in evaluating the performance of the Institute.
- (c) Even though a Corporate Plan had been prepared for the years 2016 – 2018, planning had not been carried out by subjecting the strengths and weaknesses as well as opportunities and obstacles existing in achieving the objectives of the Institute.
- (d) The Human Resources Development Plan which should be presented along with the Annual Action Plan, had not been prepared.

#### **3.2 Management Activities**

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The following observations are made.

- (a) In the subsequent cancellation of reservation of the reception hall at Hotel Samudra, provision had not been made with regard to the percentages that should be retained from advances relating to the loss occurred to the Institute.
- (b) An external party had occupied Room No.202 of Samudra Training Hotel from 25 May 2016 to 17 August 2017 and the sum of Rs.4,050,000 recoverable as accommodation charges had not been recovered even by 31 October 2018, the date Audit. In providing accommodation, it was further observed that the Management had done so without obtaining any advance whatsoever or entering into a written agreement therefor.
- (c) Fees charged for courses conducted by the Institute had not been revised after April 2006.
- (d) An excess amount of cash had been granted as advances from 45 per cent to 90 per cent exceeding the required amount due to failure in estimating the expected expenditure more accurately. Accordingly, the attention of the Management had not been drawn in preventing misuse of public money by retaining the same in the hand of the officer who obtained excess cash advances, from 26 days to 213 days without settling the remaining cash immediately after the completion of the specific purpose.

- (e) The Institute had invested a sum of Rs.11,910,882 in a normal savings account on 30 October 2013 and maintained it up to the end of the year under review with the intention of settling **future retirement obligation**. The Institute had been deprived of the interest income which could have been received by investing the said amount in a fixed deposit so as to receive more effective benefits.
- (f) Contrary to Sections 10, 16 and 47 of the Employees' Provident Fund Act, No.15 of 1958, in the payment of contributions of the employee and the employer, payments had been made based only on the basic salary except the allowances to be adjusted. As such, the Institute had to incur an additional sum totalling Rs.79,223 comprising of Rs.35,210 as the employee's contribution for the period from August 2008 to December 2014 and a sum of Rs.44,013 as surcharges relating thereto.

### **3.3 Operating Activities**

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Even though a number of 3,650 nights of hotel room accommodation exists during the year in the Hotel Samudra for earning income, out of them, the Institute was able to provide only 845 nights of hotel room accommodation representing 23 per cent. Moreover, it was observed that an adequate improvement of the utilization of rooms had not taken place during the whole period of several preceding years and as compared with the number of 1,442 nights of hotel room accommodation in the year 2014, it had declined to 845 nights of hotel room accommodation by the year under review representing 41 per cent.

### **3.4 Transactions of Contentious Nature**

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The following observations are made.

- (a) Despite the availability of a Ministerial Office in the Ministry and the allocation of monies under the Expenditure Head of the Ministry for the expenses of the office of the Minister, the 7<sup>th</sup> storey of this Institute had been given to the line Ministry from the year 2016 without entering into an agreement. Moreover, the payments on behalf of electricity and water of the Ministry as well had been made by the Institute. In addition, a sum of Rs.2,449,004 had been spent by the Institute in the year under review for improvements and maintenance of the Office of the Minister located therein.
- (b) According to the list of duties assigned to the Senior Lecturers, preparation and evaluation of examination papers and evaluation of the performance of students should be carried out by them. However, apart from the salary, the Senior Lecturers were been paid an additional allowance for performing the above duties. The amount so paid in the year 2017 amounted to Rs.183,390.

#### **4. Accountability and Good Governance**

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##### **4.1 Procurement and Contract Process**

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###### **4.1.1 Procurements**

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The following observations are made.

- (a) In terms of Guideline 4.2.1 (b) of the National Procurement Guidelines of 25 January 2006, it was observed that the Procurement Plan had not been made use of as an instrument of management control due to reasons such as non-preparation of a three year Procurement Plan for the Institute, failure in obtaining the approval of the Board of Directors for the Master Procurement Plan prepared for the year 2017 and indication of the date of commencement of all procurements as 01 January 2017.
- (b) Procurement activities had not been carried out after the year 2014 for the practical training programmes of students of the hotel school run by the Institute and for supply of vegetables, fruits, meat, fish and dry rations required for treating of guests taking accommodation at the Hotel Samudra. Moreover, supplies had been obtained up to the year under review from the suppliers themselves who had been selected in the year 2014. The value of supplies so obtained in the year under review amounted to Rs.7,296,505.
- (c) Letters of awarding the procurement had been issued after the procurement process which was carried out at the commencement of the year 2017, had been completed on 26 December 2017. However, the Institute had not entered into written agreements in this connection even by 31 July 2018, the date of Audit. The total amount spent for the practical training programmes of students of the hotel school and for purchase of vegetables, fruits, meat, fish and dry rations required for treating of guests taking accommodation at the Hotel Samudra without entering into agreements during the above mentioned period was Rs.15,154,700.
- (d) The following shortcomings existed in respect of the procurement process carried out in the year 2017.
  - (i) The criteria used in the evaluation of procurement were not indicated and no one of the suppliers had submitted bid securities.
  - (ii) In the opening of quotations, the three committee members had not signed by placing the date seal of opening on the sealed envelope and on the submitted bidding documents.
  - (iii) There was no evidence that the suppliers who responded to calling of quotations or their representatives participated at the opening of quotations.

##### **4.2 Tabling of Annual Reports**

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The Institute had tabled the reports for the year 2012 in Parliament on 09 September 2014 and annual reports had not been tabled in Parliament thereafter.

## 5. Systems and Controls

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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 Controls</b>	<b>Observations</b>
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(a) Fixed Assets	Non-maintenance of a Register of Fixed Assets
(b) Procurement Process	Improper carrying out of the procurement process for the practical training programmes of students of the hotel school and for purchase of vegetables, fruits, meat, fish and dry rations required for treating of guests taking accommodation at the Hotel Samudra
(c) Control over Vehicles	Failure in taking action to transfer the legal ownership of certain vehicles to the Institute.
(d) Allowances of Visiting Lecturers	Revision of allowances of Visiting Lecturers without approval of the Board of Directors
(e) Inventory Control	(i) No inventories are maintained for each division and Reports on Boards of Survey as well had not been prepared. (ii) Non-preparation of a proper system on unserviceable assets.
(f) Maintenance of Registers	Non-maintenance of Advance Registers in an updated manner.
(g) Staff Administration	(i) Non-preparation of a Human Resources Plan (ii) Unavailability of a proper transfer scheme (iii) Unavailability of a prepared programme for evaluation of annual performance (iv) Non-maintenance of an information system on human resources
(h) Planning	Differences between the figures provided to Audit by the Registrar relating to the number of students targeted for courses planned during the year 2017 by the Institute and the figures included in the Action Plan