

Sri Lanka Institute of Tourism and Hotel Management - 2016

The audit of the financial statements of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 Commission in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The 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

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 judgment, 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 the financial statements. Subsections (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 opinion, except 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 2016 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 Standard

The following observation is made.

Due to not reviewing the useful life annually in accordance with Standard No. 07, the actual cost of property, plant and equipment which were completely depreciated but currently used cost at Rs.84,383,159 had not been stated in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The stock balance stated in the financial statement of as at 31 December 2016 of the Sri Lanka Institute of Hotel Management was Rs. 425,959 and physically checked and computed final stock balance was Rs.3,526,748. Accordingly, the final stock balance was understated in the accounts by Rs. 3,100,789.
- (b) Depreciation for buildings had been overstated by Rs. 11,657,139 during the year under review.

2.2.3 UnreconciledAccounts

The following inconsistencies were observed when comparing the account balances of the Sri Lanka Institute of Tourism and Hotel Management with the account balances of the Sri Lanka Tourism Development Authority and Sri Lanka Tourism Promotion Bureau .

Account Details	According to the Accounts of the Sri Lanka Institute of Tourism Hotel Management	According to the Accounts of the Sri Lanka Tourism Development Authority	According to the Accounts of the Sri Lanka Tourism Promotion Bureau	Difference
----- Rs.	----- Rs.	----- Rs.	----- Rs.	----- Rs.
(a)Balances				
Receivable and Debtors	8,487,711	6,512,810	-	1,975,901
(b)Creditors	-	5,849,528	-	5,849,528
(c)Debtors	3,774,878	-	114,626	3,660,252

2.2.4 Lack of Evidence for Audit

As the evidence shown against the each of the following Items of Accounts had not been made available to audit.

Item	Value	Evidences not presented
-----	----- Rs.	-----
(a)Accounts Receivable		
(i) Trade Debtors	22,302,688	Balance Confirmations
(ii) Deposits and Other Receipts	3,492,000	Balance Confirmations
(b)Fixed Assets (Opening balance of 2008)	128,373,195	Detailed documents showing how the balance is made
(c)Development costs classified under fixed assets	1,788,459	Detailed Schedule

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Out of the balances shown under trade debtors a sum of Rs. 16,140,932 for more than one year and less than 03 years and a balance of Rs.6,161,757 less than one year had been consisted . The trade debtor balances valued at Rs. 20,799,543 had not been recovered from foresaid outstanding balances even by May 2019.

- (b) Out of the balances stated under accrued expenses amounted to Rs. 1,883,486 for more than 02 years and a sum of Rs. 641,735 for more than one year less than 2 years had been consisted.

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

 Non-compliance with the following Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations and Management Decisions	Description
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Public Enterprises CircularNo. PED / 12 of 02 June 2003 (a) Section 4.2.5	Although the statement of debtor and creditor age analysis, stock age analysis and the statement of old, outdated and slow moving stocks and other items should be reviewed by the board of directors monthly to manage the working capital efficiently it had not acted accordingly.
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(b)Section 8.3.9	Although it was not possible to pay for the Line Ministry as per the Circular, a sum of Rs. 4,887,871 had been incurred on furniture purchases during the year under review.
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2.5 Unauthorized Transactions

 The following observation is made.

Nature of the Transaction	Description of the Transaction	Value	Observations
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		Rs.	
Accommodation fees	Accommodation fees for Samudra Hotel Rooms	4,050,000	An external party had accommodated in Room No. 202 of Samudra Hotel from 25 May 2016 to 17 August 2017 and this amount, which is to be recovered as accommodation fees, had not been recovered up to now. It was further observed that the above accommodation was provided by the management without obtaining any advance or signing of a written agreement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the operations of the Institute for the year ended 31 December 2016 was a surplus of Rs. 132,127,218 and thus the corresponding surplus in the preceding year was Rs. 112,721,045, an improvement of Rs. 19,406,173 was showed in financial results. Although the cost of supplies and consumables had increased by Rs. 48,150,555, the increase in revenue of tourism development levy by Rs.16,085,375 and embarkation levy revenue by Rs.46,428,021 had basically attributed to the growth in the financial results.

In analysing of the financial results for the year under review and 05 preceding years, the financial results had been increased from the year 2012 and 2014 . The growth in financial results of the year under review as compared to the year 2015 was 17.2 per cent. However, in the re-adjustment of the employees' remuneration and the depreciation for the non-current assets, the contribution of the Institute in the year 2012 amounted to Rs.168,578,186 had been gradually increased up to the year under review and that had been Rs. 353,488,244 in the year 2016.

3.2 Analytical Financial Review

The income of the Institution for the year under review was Rs. 532 million and there was a growth of 20.36 per cent whilst comparison with Rs. 442 million of previous year. Similarly, in comparing with the amount of Rs. 329 million spent on teaching, training and development in the previous year, a sum of Rs.399 million had been paid in the year under review. Accordingly, an increase of 21.27 per cent had been appeared.

4. Operating Review

4.1 Performance

4.1.1 Planning

An annual Action Plan which includes activities aimed at achieving the objectives of the Tourism Act No. 38 of 2005 had not been prepared in accordance with Paragraph 04 of the Public Finance Circular No. 01/2014 and 17 February 2014 and the Performance Report had not been prepared in relation to the Action Plan that had been prepared. Therefore, it was observed that the Action Plan could not be made use as an effective control instrument for the performance of the Institute.

4.2 Management activities

The following observations are made.

- (a) Although the advice and support was given to the Hotel Management Institute to gain the National Vocational Qualification (NVQ) through the Tourism Resource Improvement Project, the institute had not been able to introduce courses with National Vocational Qualification until now.
- (b) The ownership of the land where the building is located to the Sri Lanka Institute of Tourism and Hotel Management had not been settled by now.
- (c) Although the pension gratuity payable as at 31 December 2012 amounted to Rs. 11,910,882 was deposited in an ordinary savings account on 30 October 2013 with the objective to settle future pension benefits liabilities by the Institute, actions had not been taken to make the necessary investment for the balance amounted to Rs. 17,620,039 out of the retirement gratuity payable amounted to Rs. 29,530,921 at the end of the year 2016 .
- (d) Due to the lack of a liquor license for Samudra Hotel, the stock of liquor amounted to Rs. 83,540 which have been in existence since 2013 have been remained idle unable to sell.

4.3 Operating Inefficiencies

There are 3660 room nights in the Samudra Hotel to get the income during the year and only 794 room nights were achievable and it was only 22 per cent.

4.4 Utilization of Vehicles

The following observations are made.

- (a) The Institute had not taken any legal action to transfer the ownership of a vehicle that the Institute had deployed for use.
- (b) The Institute had paid a sum of Rs.440,155 in 2014, Rs.1,697,960 in 2015 and Rs.509,536 in 2016 to a private organizations for supplying of transport services without entering into an agreement.

4.5 Procurement Process

A sum of Rs.4,994,817 had been spent in the year 2016 to purchase food ingredients for the students of the Hotel School Colombo outside the Procurement Process.

5. Accountability and Good Governance

5.1 Submission of Financial Statements

Although the Draft Annual Report and Financial Statements should be submitted to the Auditor General within 60 days of the end of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular No. PED / 12 of 02 June 2003, the financial statements for the year under review had been presented on 18 April 2019 after a two-year period delay.

5.2 Internal Audit

The Internal Audit Program and Audit Reports had not been submitted to the Auditor General in terms of Financial Regulation 133 and Management Audit Circular No. DMA / 2009 (1) dated 09 June 2009.

5.3 Budgetary Control

As variances ranging from 26 per cent to 158 per cent in 16 income and expenditure items was observed during the year under review thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling of Annual report

The Annual Report for the year 2014 had not been tabled in Parliament by August even by 20 August 2019 in accordance with Paragraph 6.5.3 of the Public Enterprises Circular No. PED / 12 of 02 June 2003.

5.5 Unresolved Audit Paragraphs

The following shortcomings pointed out by the Auditor General's Report for the years 2014 and 2015 were not resolved until the end of the year under review.

- (a) The various types of liquor received as donations to the hotel school had been kept in the custody of the Head of the Food Department without documentation and handing over to the stores. When carrying out a physical examination of the stocks it was revealed that missing of 12 bottles of wine valued to Rs.35,000, a shortage of 06 more bottles of liquor and there had been no evidence that the foresaid liquor was used in practical tests.
- (b) The direct cost that had to be incurred due to the provision of Laundry Services to the staff of the Institute from April 2013 to 30 June 2014 was Rs. 887,028. These costs had not been recovered from the staff.

- (c) Two visiting lecturers who were recruited to the FoodDepartment of the Institute had been paid a sum of Rs. 972,865 in excess for more than the number of lecture hours worked from March 2013 to June 2014 as per the class record books.

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 systems and controls.

- (a) Fixed asset management
- (b) Budgetary control