

Sri Lanka Institute of Tourism and Hotel Management – 2014

The audit of financial statements of the Sri Lanka Institute of Tourism and Hotel Management for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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. The Auditor General's report on the transactions of the Institute had been issued to the Chairman of the Institute on 05 October 2015 due to the delay on presentation of the financial statements for the year 31 December 2014. My comments and observations which I consider should be published with the Annual 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

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 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 power 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

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 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 2014 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 Statement

2.2.1 Accounting Deficiencies

Instead of adjusting the expenses of other supplies amounting to Rs.1,503,002 relating to the year 2011 as prior year adjustments those had been accounted as other supplies expenditure of the year under review.

2.2.2 Unexplained Differences

The following observations are made.

- (a) Following differences were observed between the balances of the financial statements and balances of the ledger accounts as at the end of the year under review.

Item	As at 31 December 2014		Difference
	Balance as per Financial Statements	Balance as per Ledger Accounts	
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	Rs.	Rs.	Rs.
Other Income	3,594,364	3,799,104	204,740
Other Income (Samudra)	1,361,489	1,142,663	218,826

- (b) Although according to the Tourism Development Fund of the year 2014, an amount of Rs.80,760,765 had to be paid to the Institute as Tourism Development Levy and Embarkation Levy, it had been shown in the financial statements of the Institute as Rs.64,243,486. As such a difference of Rs.16,517,279 had been observed.
- (c) Even though a sum of Rs. 440,000 which had not been shown as rent payable in the financial statements of the Sri Lanka Convention Bureau for the year 2014, it had shown under other debtors and receivable deposits of the Institute.
- (d) Even though the depreciation and amortization totalled Rs.35,493,332 according to the Note No.20 of the financial statements presented, it had been shown as Rs.36,250,997 in the statement of Financial Performance. Hence a difference of Rs.757,665 was observed.
- (e) According to the confirmations of the bank, value of investments as at the end of the year under review had been Rs.185,105,205 but it had been stated in the financial statement as Rs.189,988,754. As such a difference of Rs.4,883,549 had been observed.
- (f) Although a sum of Rs.31,395,158 had been shown in the statement of financial performance as at the end of the year under review as accrued expense, according to the schedule presented with the financial statements the balance of the same had been Rs.29,650,243 as such a difference of Rs.1,744,915 was observed.

2.2.3 Lack of Evidence for Audit

The following observations are made.

- (a) Evidences for the following items had not been made available to audit. Details appear below.

Item	Value	Unavailability of Evidence
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	Rs	
(i) Closing stock	2,140,852	(i) Detailed schedules (ii) Board of survey Reports
(ii) Accounts Receivable		
• Trade Debtors	11,037,942	(i) Confirmation of balance Age (ii) Analysis
• Other Debtors and Deposits Receivable	4,110,259	(i) Confirmation of balance Age (ii) Analysis
(iii) Accounts payable		
• Deposits and other Accounts Payable	2,419,056	(i) Confirmation of balance Age (ii) Analysis
(iv) Fixed Assets (Opening Balance of the year 2008)	151,776,163	Detailed reports showing composition of the balance
(v) JABIC & UNDP Grant	12,224,841	Files consist with relevant documents
(vi) Work-in-progress	29,671,063	Detailed schedule
(vii) Prior year Adjustments	4,672,010	Journal entries and supporting documents
(viii) Credit sales	12,347,554	Journal entries and supporting documents
(ix) Development expenses	1,788,459	Detailed schedules

(b) Although it had been stated in the accounts that the balance shown under debtors/other debtors and receivable deposits in the year 2013 amounted to Rs.179,048 had been recovered in the current year, evidence relating to them had not been made available to audit.

(c) Details of the value Rs.772,219 adjusted to the surplus of the Cash Flow Statement presented relating to the current year, had not been made available to audit.

2.3 Accounts Receivable Payable

The following observations are made.

- (a) Action had not been taken to recover the amount Rs.5,396,780 shown as a receivable balance from the Sri Lanka Tourism Development Authority from year 2012. However, this balance had been shown as Rs. 6,511,960 in the accounts of the Sri Lanka Tourism Development Authority as payable to the Institute.
- (b) The identified trade debtors balances totalled to Rs.1,144,826 old between 01 to 02 years, the totalled to Rs.3,240,857 old between 2 years to 3 years and the totalled to Rs.1,099,591 old between 3 to 4 years shown as recoverable from the Ministry of Economic Development and the Sri Lanka Tourism Development Authority had not been recovered.

2.4 Transactions Without Authority

The Samudra Hotel had made credit sales amounting to Rs.15,003,291 during the year under review without any approval.

2.5 Non-compliance with Laws, Rules, Regulation and Management Decisions

The following non-compliances to Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Section 02 of Tourism Hotels Statute of 1999.	While running a Tourist Hotel, the business should be registered and obtained a licence for the purpose, but in case of Samudra Hotel neither it had been registered nor obtained a licence.
(b) Financial Regulations 104(3) and (4) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	One of a vehicle of the Institute had met with accidents in 2 occasions in the year 2013 but preliminary report and full report had not been furnished in respect of the same.
(c) Public Administration Circulars No.22/99 of 08 October 1999 and No.14/2008 of 26 June 2008	A transport allowance of Rs.7,186,560 had been paid to the officers who were not entitled to official vehicle facilities contrary to the Circular during the year under review.

- (d) Treasury Circular No. IAI/2002/02 dated 28 November 2002 A register of computer, computer accessories and software had not been maintained according to the Circular.
- (e) Section 4.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003 The Board of Directors should review monthly, the Statement of debtors and creditors age analysis, 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.

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 2014 amounted to a surplus of Rs.146,301,826 as compared with the surplus of Rs.82,854,594 for the preceding year, thus indicating an improvement of Rs.63,447,232 in the financial results for the year under review, as compared with the preceding year. Increase of the Embarkation Tax by Rs.26,058,745 and the increase of other income by Rs.21,180,602 had been mainly attributed to the increase in the financial results.

An analysis of the financial results of the year under review and 04 preceding years, though the Financial results had been improved in the years 2010 and 2011, it had been decreased in the year 2012. The financial result had improved by 76.6 per cent during the year under review as compared with the year 2013. Re-adjusting the remuneration of employees and the depreciation on the non-current assets to the financial result, the contribution of Rs.142,048,450 of the Institute in the year 2010 had continuously increased to Rs.292,786,823 in the year 2014.

3.2 Analytical Financial Review

The income of the Institute for the year under review amounted to Rs.425.8 million and that as compared with Rs.366 million for the preceding year indicated an increase of 16.4 per cent. Similarly, as compared with the sum of Rs.283 million spent during the preceding year on teaching, training and development activities, a sum of Rs.279 million had been spent on those activities during the year under review. As such a decrease of 1.4 per cent was indicated.

4. Operating Review

4.1 Management Activities

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 had not obtained the said qualification.
- (b) The Institute had not obtained the approval for the four years Management Diploma Course Conducted by the Institute as a complete degree from the Government, University Grant Commission or Territory and Professional Education Commission.
- (c) Direct deposits to the Bank amounted to Rs.285,804 had not been identified and accounted as at the end of the year under review.

4.2 Operating Activities

Even though the Samudra Hotel has 4745 hotel room nights during the year under review for earning income, out of that 1442 room nights or 30 per cent only had been able to achieve by the Institute. Accordingly, the Management's attention had not been focused on allocating maximum utilization of rooms.

4.3 Transactions of Contentious Nature

Two Hundred tables and chairs each valued at Rs.2,725,000 had been purchased during the year 2013 for the class rooms of the 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 purchases had been made contrary to the said requirements of the specification.

4.4 Apparent Irregularities

The following observations are made.

- (a) The Institute had issued 245 certificates in the year 2014 and 900 certificates in the previous years without any basis of awarding to the winners in respect of competitions held with the participation of the Tourist Colleges of the University Graduates Association to award 54 students of a private Hotel School neither belongs to the Hotel School of the Institute nor to the local hotel schools owned by the Institute. During the test check a Senior Lecturer of the Institute had signed on one certificate issued by the Graduate Association in lieu of the designation of the Director General of the Institute.

- (b) Variety of donated liquor received to the Hotel School had been kept without documenting them in custody of the Head of the Food Department without handed over them to the stores. It was revealed in the physical verification that 12 bottles of Rs.35,000 worth were missing and were observed shortages in 06 liquor bottles and hence there were no evidence that those liquor had been used for practical tests.

4.5 Idle and Underutilized Assets

The following observations are made.

- (a) Fifty two teak arm less chairs valued at Rs.662,200 purchased in the year 2013 had been piled up unsecured in the open place at the cafeteria without taken use of them.
- (b) It was observed in audit that 04 summer huts valued at Rs.300,000 constructed at the 7th floor of the Hotel School decaying without been taken use of them.
- (c) A 2,172 square feet of the main building of the Institute had been allowed for the utilization of outside institutions without making any charges.
- (d) In view of the lack of proper management of the floor space available in the main office building of the Institute about 8,547 square feet of floor area remained underutilized from beginning of the Institute up to the end of the year under review.

4.6 Identified Losses

The following observations are made.

- (a) Action had not been taken to recover the cost of 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.
- (b) The Institute had been incurred losses amounting Rs.972,865 for payments in excess to the lecturing hours worked according to the class record books during the month of March 2013 to June 2014 to two Visiting Lecturers recruited to the Food Department of the Institute.

4.7 Staff Administration

The following observations are made.

- (a) Even though there were no proper procedure had been prepared to transfer the Officers between the posts of the Institute, the transfers made by the Management in time to time had been implemented.

- (b) The approved staff of the Institute had been 169 and the actual staff had been 116. It had been observed a vacancies in 56 posts and an excess of 03 posts. Four posts such as Director General, Deputy Director General, Registrar, Director (Finance) had been vacant during the year under review.
- (c) No duty had been assigned to the visiting lecturer who had been recruited to conduct lectures on laundry subject in relating to Management Course Primary Course and Advanced Course were carried out by the Hotel school of the Institute.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements should have been presented for audit within 60 days after the close of the year of accounts, nevertheless the financial statement for the year 2014 had been presented for audit on 11 August 2017.

5.2 Action Plan

The targets that can be achieved had not been clearly and adequately shown in the Action Plan. Ten Activities included in the Plan had not been achieved during the year under review

5.3 Internal Audit

According to 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.

5.4 Procurement Plan

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 2006.

5.5 Budgetary Control

Variances between the budgeted and the actual amounts under 33 income and expenditure items for the year under review ranging from 22 per cent to 245 per cent were observed and as such the budget had not been made use of as an effective instrument of Management Control.

5.6 Tabling of Annual Reports

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

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.

Areas of Systems and Control -----	Observation -----
(a) Fixed Assets Management	A Fixed Assets Register had not been maintained.
(b) Management of Income and Expenditure	(i) Action had not been taken to recover the outstanding charges on behalf of providing laundry services. (ii) Visiting Lecturer allowances had been paid without a proper monitoring.
(c) Issue of Certificates	A direct monitoring or proper methodology had not been introduced in relation to preparing and issuing of certificates.
(d) Inventory Control	In certain Sections Inventory Registers had not been maintained and Board of Survey Reports had not been submitted.
(e) Board of Survey	Not availability of the names and signatures of the officers who participated in the Board of Surveys of some Board of Survey Reports. A responsible officer had not initiate for the amendments when data entering into the Board of Survey Reports.