

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 2021 comprising the statement of financial position as at 31 December 2021 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 report 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 2021, 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 Scope of the Audit (Auditor's Responsibility on Audit of 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
Although, assets and liabilities cannot be offset in terms of Sri Lanka Public Sector Accounting Standard No: 01, bank overdraft of Rs.10,329,730 had been offset against the cash balance and shown in the financial statements.	Although, a negative value exists as per accounts, no overdraft persists as per the bank accounts. Since all the accounts have been interconnected as per the pooling concept, an overdraft position is not shown in the accounts as a whole. Outstanding of other cash books is set off through the fund management account, theoretically no overdraft position is in presence.	Compliance to Sri Lanka Public Sector Accounting Standard is required.

1.5.2 Accounting Deficiencies

Audit Observation

- (a) 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.
- (b) Actions had not been taken to reconcile the physically verified stock amounting to Rs.3,923,058 which was shown in the financial statements as at the end of the year under review with the balances of the stock records and then to identify the variances. Although, a liquor stock amounting to Rs.83,540 was shown in the accounts, it had not been physically verified.

Comments of the Management

Agreed. Actions will be taken to do the required corrections in the accounting year 2022.

Hence, the number of stock receipts and issues are very high, actions have been taken to introduce a stores control system in order to keep the accuracy and actions will be taken to do the relevant reconciliations accurately from the year 2022.

Recommendation

Actions should be taken to do the proper adjustments related to the receivable income in the financial statements.

Actions should be taken to identify the variances by reconciling the physically verified stock with the stock records.

1.5.3 Unreconciled Accounts or Records

Item	as per Financial Statements Rs.	per As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Cash receivables from Sri Lanka Tourism Development Authority	5,774,778	6,512,810	738,032	Agreed. Actions will be taken to do the required corrections in the accounting year 2022.	Actions should be taken to do the adjustments in accounts associated with the related parties.
(b) Tourism Development Levy Income	88,207,035	97,916,463	9,709,428	Agreed. Actions will be taken to do the required corrections in the accounting year 2022.	Actions should be taken to do the adjustments in accounts associated with the related parties.

1.6 Receivable and Payable Accounts

1.6.1 Cash Receivables

Audit Observation

The value of the trade debtors as at 31 December 2021 was Rs.22,756,021 and confirmations had not been received even from a single debtor even as at 31 May 2022. Further, out of those debtors, aggregated to Rs. 18,375,051 had remained outstanding for more than five years and it was 81 per cent from the total debtors.

Comments of the Management

Agreed. Actions will be taken to do the required corrections in the accounting year 2022.

Recommendation

A proper process should be followed to recover money from debtors.

1.6.2 Cash Payables

----- Audit Observation -----	----- Comments of the Management -----	----- Recommendation -----
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 amount even at the end of the year under review.	Agreed. Actions will be taken to rectify in the year 2022.	Actions should be taken to settle tax on time.

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

The following observations are made.

----- Reference to Laws, Rules, Regulations etc. -----	----- Non-compliance Rs. -----	----- Comments of the Management -----	----- Recommendation -----
(a) Paragraph 11 of the Finance Act No.38 of 1971. ----- Although, there were long term investments of Rs.301,720,753 and short term investments of Rs.135,000,000 of the institute, treasury approval had not been obtained for that.	436,720,753	Agreed. Actions will be taken to rectify in the year 2022.	Actions should be taken in accordance with the Finance Act.

- (b) Public Enterprises 2,493,000
Circular No. PED
03/2018 of 07 December
2018 and Public
Enterprises Circular
No.PED 03/2021 of 15
December 2021

Although, a bonus of
Rs.5000 can be given to
employees of those
entities of which a loss
has been reported in the
financial year 2021 and
that loss has been reduced
with compared to the year
2020, a sum of Rs.13,500
for each employee had
been paid as bonus
aggregating to
Rs.2,493,000 during the
year under review.
- Agreed. The Board of
Directors had decided
to give that money
considering the
economic difficulties of
the employees in the
year 2021, requests
made by employees'
unions and the
improvement of the
operations of the
institute
(students' enrolment
and completion of
trainings).
- Actions should be
taken in accordance
with the Circular.
- (c) Public Finance Circular 542,075
No.01/2020 of 28 of
August 2020

Although a Sub- imprest
should be settled within
10 days after the
completion of the purpose
for which it is granted, a
delay ranging from 21
days to 251 days had been
observed for the
settlement of Sub- imprest
valued at Rs.542,075
provided at 11 instances.
- 12 of the month of
March (3/12) had been
replaced instead of 03
of the month of
December (12/3) in the
register of which the
sub- imprest data was
included. Except that,
actions have been taken
to settle all the other
advances given
appropriately.
- Actions should be
taken in accordance
with the Circular.

- (d) Paragraph 8.9.1 of the Procurement Guideline of 2006. 15,261,207 Agreed. Although, Directions of the execution of this has procurement guideline been avoided due to the shortage of human resource legal officer, assistant director procurement, actions will be taken to act in terms of the prescribed paragraphs in the future.
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- Although, a proper agreement should be signed in writing for the contract of works which exceed Rs.250,000 in terms of the prescribed paragraphs, actions had not been taken to sign proper agreements for 7 contracts valued at Rs.15,261,207 activated during the year under review.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a deficit of Rs.182,359,902 and the deficit for the preceding year as against to that was Rs.229,308,580. Accordingly, an improvement of Rs.46,948,678 was observed in financial results. The increase in income from tourism development levy and school fees and decrease in other expenses were the main reasons for this improvement.

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 failed during the time of execution due to the incompatibility with the requirements of the Institute. However, actions had not	Agreed. Actions will be taken to do the required corrections in the accounting year 2022.	Actions should be taken after considering the requirements of the Institute.

been taken to remove that value from the work in progress account even as at the end of the year under review.

3.2 Management Inefficiencies

Audit Observation

Although a vehicle had been received from the Ministry of Economic Affairs in 2011, actions had not been taken even as at 31 December 2021 to acquire that vehicle.

Comments of the Management

Future actions will be taken by the Ministry of Tourism related to the acquisition of the vehicle and the necessary information and documents for that have already been furnished to the Ministry by us.

Recommendation

Actions should be taken to acquire the vehicle.