

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Institute of Tourism and Hotel Management (“Institute”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Finance 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 give a true and fair view of the financial position of the Institute as at 31 December 2022, and of its financial performance and its 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 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 Public Sector 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 of the Institute.

## 1.4 Audit Scope

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 scepticism 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.
- Obtain 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 Company'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 the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Internal Control over the Preparation of Financial Statements.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Actions had not been taken to reconcile the physically verified inventory as at 31 December 2022 amounting to Rs.3,940,298 which was shown in the financial statements for the year 2022 with the balances of inventory record and identify the variances.	Due to the workload involved in the updating and checking of the entries of inventory records, we could not complete the reconciliation with physical balances at the time of submission of Financial Statements as of 31.12.2022. Further, this will be eliminated with the introduction of a Store Management System, which will be launched in near future.	Action should be taken to complete the reconciliation with physical balances in time.
(b) The cost of 238 number of inventory items had not been recognized at physical stock verification as at 31 December 2022. There on current assets of the institute had been understated.	Due to the misplacement of stock sheets the referred items were missed from the stock valuation. We will take measures to adjust the cost of 238 numbers of inventory items as a prior-year adjustment for the year 2023 final accounts.	Stock valuation should be done accurately by a responsible officer.
(c) An inventory management system had not been introduced to maintain the internal control system of inventories to date and thereon no inventory controls levels had been maintained by the institute.	Store management system is already finalized and pending launch in near future and it will enable us to maintain proper control over the inventory.	An inventory management system should be introduced early.
(d) An action had not been taken to introduce a coding system on fixed assets to date. Thereon, it was not satisfied in audit regarding the internal control system of fixed assets.	We introduced the coding in 2019 with the revaluation of the assets. However, items procured after 2019 have not been coded due to the limitations/inability (Covid 19, staff shortage) of the regular staff's physical presence for the verification. However, this will be regularized with the introduction of the store management system covering fixed assets.	A coding system on fixed assets should be continuously updated.

### 1.5.2 Non-Compliance with Sri Lanka Public Sector Accounting Standards

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
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As per paragraphs no.13 & 26 of Sri Lanka Public Sector Accounting	The buildings of Colombo & Anuradhapura hotel schools	Action should be taken to transfer the
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Standard No.07, a reasonable value had not been assessed and accounted on two lands at Colombo and Anuradhapura which is being utilized by the Institute to date. Further, neither action had been taken to transfer the ownership of those lands under the name of the Institute nor disclosure had not been made regarding the above lands in the financial statements for the year under review.

were taken into the books of accounts based on the letter dated 08.01.2009 and numbered HRD/G/31, issued by the Director General of Tourism Development Authority. However, the said letter was silent about the lands of the respective buildings & up to now no absolute ownership was transferred to or the deeds were issued in the name of Sri Lanka Institute of Tourism & Hotel Management (SLITHM). Therefore, we have not recognized the values of lands accordingly. However, we would take the necessary steps to transfer the ownership to SLITHM and will record the land values in the books of accounts within the year 2023.

ownership of those lands to SLITHM and record the land values in the books of accounts early.

### 1.5.3 Un-reconciled Control Accounts or Records

Item Difference	as per Financial Statements Rs.	As per corresponding Record Rs.	Management Comment	Recommendation
(a)Trade debtor Balances	9,533,361	-	The decision has been taken to reconcile & sort out the inter-organization balances with the mediation of the Ministry of Tourism & Lands and expect to sort all those balances within the year 2023.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.
(b) Receivables	5,396,778 1,116,032	6,512,810	The decision has been taken to reconcile & sort out the inter-organization balances with the mediation of the Ministry of Tourism & Lands and expect to sort all those balances within the year 2023.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.

(c) Payables	-	9,023,930	The decision has been taken to reconcile & sort out the inter-organization balances with the mediation of the Ministry of Tourism & Lands and expect to sort all those balances within the year 2023.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.
(d) Accrued Expenses	35, 013, 397	34,003,642	There is a difference in accrued expenses in the financial statements and the schedule due to an error in the over/under provisions. We will take measures to rectify the errors under the prior year's adjustments in the year 2023 final accounts.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Bad debts of Rs.1,454,631 had been written off without obtaining prior approval from General Treasury. Further, it was observed that the provision for doubtful debts should be reconsidered.	The bad debtors of Rs.1,454,631 were written off with the Board's approval as stated in the Operational Manual issued by the Department of Public Enterprises under Section 6.9 Write-offs. Further, we will reconsider & revise the bad debt provision if required with the approval from the Board of Management for 2023 final accounts.	The bad debt provision should be reconsidered and revised in the financial statements of 2023 and Treasury approval should be obtained for bad debts write off.
(b) Although, a rent income receivable amounting to Rs.3,192,000 from Tourist Police Unit in 2014 had been recognized 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. Further, no rent had charged and invoiced from the year 2015 to date though they are utilizing the premises. Thereon, a total rent income of	We have requested the Board of Management's approval to write off the rent income receivable of Rs.3,192,000.00 from the Tourist Police Unit (TPU) considering the uncertainty of the recoverability. However, Board advised keeping the amount in the account until the final decision is made relevant to the utilization of the building by the TPU. The invoicing did not take place after 2014 since the	A final decision should be taken on the utilization of the building by the TPU early.

Rs.25,536,000 had been lost by the Institute as at the end of the year under review.	administration has not taken responsibility towards the rent payment.	
(c) Recovery of debtors was very slow that is 3 percent from total debtors during the year 2022 and action had not been taken to recover the dues in an efficient & effective manner. An amount of Rs.12 million had been overdue for more than 08 years.	Due to various reasons including improper transaction recording in the earlier periods made it difficult to recover the debtor balances. Further, changes made in the ministries also affected this delay in recovery. However, we will take measures to sort out those slow recoveries in the year 2023.	Actions should be taken to recover the debtors in the year 2023.
(d) Action had not been taken to recover the rent income amounting to Rs.330,000 for the year 2018 from Sri Lanka Convention Bureau to date.	This will be sorted out.	Actions should be taken to recover the rent income balance in the year 2023.
(e) Balance confirmations had not been received on the total balance of Rs.145,149,037 in deposits & other receivables as at the end of year under review.	We will take measures to get the balance confirmations from all the deposits & other receivables from the year 2023.	Actions should be taken to obtain the debtor balance confirmations directly to audit.

## 1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Actions had not been taken to settle the value added tax payable amounting to Rs.1,452,439 which was carried out from prior to the year 2014 even as at the end of the year under review.	There is no actual payable amount of VAT to the Department of Inland Revenue and the payable has been made due to incorrect entries made to the system. We have taken measures to check the previous records but took more time to analyze & could not write back in the system. We will take measures clear the payable amount in the year 2023.	Actions should be taken to clear the payable amount in the year 2023.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Public Finance Circular No.01/2020 dated 28 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 ranged from 21 days to 143 days had been observed for the settlement of total Sub- imprest amounting to Rs.3,736,366 provided at 58 instances. Further, a total sub imprest amounting to Rs.911,000 had been given in 4 instances exceeding the maximum sub imprest limit of Rs.100,000 without obtaining prior approval.	Due to the recent drawbacks in the economy most of the suppliers refused to provide the goods and services without payment & mostly avoided even sending quotations due to changes in the prices. Therefore many of the activities had to handle via advances. In most of the cases, the delays were observed due to the complexity of the services provided by the suppliers and the delays took place in repairs, providing goods, etc. The provision of sub-imprest above Rs. 100,000 is used only in specific circumstances when there are no other options available and the payments (A/C Payee Cheques) were made specifically to the suppliers under the responsibility of a staff member.	Sub imprest should be settled within 10 days after the completion of the purpose for which it is granted and action should be taken to follow the circular.
b) Operational Manual for State Owned Enterprises (SOE) dated 16 November 2021 i) Paragraph 3.4 (ix)	If an acting appointment is made under exceptional circumstances, it should be limited to a period not exceeding one year. However, the position of Deputy Director General (Academic) of the institute had been filled with an acting appointment for 20 months period from 01 December 2020 to 04 July 2022.	The delay was due to external interferences and the time taken to sort the matter and give an appointment officially. However, the permanent appointment was given on 5 <sup>th</sup> July 2022.	Action should be taken to minimize the acting appointments and if an acting appointment is made under exceptional circumstances, it should be limited to a period not

exceeding one year.

ii) Paragraph 3.4 (x)	It is required that each SOE has a succession plan. However, the Institute had not prepared a succession plan to date.	We could not prepare a succession plan since staff recruitment is suspended due to the current economic conditions of the country. However, we have taken measures to continue staff training to upgrade the skills of the staff members & temporarily allocated the staff to handle the work of the vacated posts.	A succession plan should be prepared.
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## 1.8 Cash Management

Audit Issue	Management Comment	Recommendation
An investment of Rs.17,365,170 maintained for the purpose of gratuity payment had not been utilized for that purpose and continued as normal savings account. It was 30 per cent from the total gratuity provision as at the end of the year under review. Further, the above investment had not been made in fixed deposits or any other risk free investments which could be obtained a higher interest rather than normal savings account interest.	The approval has been taken from the Board of Management to close the savings account and transfer funds to BOC's current account (newly opened A/C No. for Gratuity related work) and do the short-term investments from this account.	An investment should be made in fixed deposits or any other risk free investments which could be obtained a higher interest rather than normal savings account interest.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.112,016,893 and the corresponding deficit in the preceding year amounted to Rs.176,422,955. Therefore an improvement amounting to Rs.288,439,848 of the financial result was observed. The reasons for the improvement are the increase in Embarkation Levy Revenue by Rs.253,665,881 and increase in Tourism Development Levy by Rs.56,894,987.

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
A food festival parreral to the World Tourism Day 2022 had been organized and conducted by the institute on 27 September 2022 without proper cost-benefit analysis as an emergency programme.	A complete report already submitted relevant to the food festival conducted on 27th September 2022.	Events should not be organized without proper cost benefit analysis.



### 3.2 Identified Losses

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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. No action had been taken to remove the value from work in progress account even at the end of year under review.	Though the amount incurred has been recorded as Rs. 3,771,216, out of this amount, Rs. 1,508,486 has not been paid (mentioned under liabilities) and will take measures to write back the same since the system was not successful & no response from the supplier. We will take measures to remove the balance amount of Rs. 2,262,730 from the work in progress with the approval of the Board of Management and will be adjusted in the year 2023 annual accounts.	Actions should be taken to achieve the expected results of planned works.

### 3.3 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A storekeeper had not been appointed and engaged in stores of the Institute for a long period. Instead temporary supervising officers had been engaged in several time periods. Further, it was observed in audit that two office aid assistants had been engaged in stores with all records under their custody, including stock ledger which should be maintained in finance section.	A letter was sent requesting approval to recruit the required positions.	A storekeeper should be appointed early to avoid weaknesses in stores.

### 3.4 Transactions in Contentious Nature

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
An amount of Rs.4,199,160 had been given as sub imprest in 60 instances instead of obtaining those goods and services under procurement procedure.	Due to the economic condition prevailing in the country many organizations did not provide the bids or quotations and also stopped the supply of products & services on credit. Even due to the rapid price increase most of the items including raw materials have to be purchased in cash since the limits of credit given were not sufficient for the raw	Procurement procedure should be applied in every purchase other than minor ones.

material requirement for student practicals. In the same way, minor value capital items & minor repairs had to be procured under the advances. However, we are expecting to reduce the utilization of advances in 2023 through the increase in credit limits, refundable deposits, etc

### 3.5 Delay in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
An amount of Rs.6,268,941 which was incurred on renovation of the library of the Institute had not been capitalized though it is in the work in progress account more than 03 years	The amount paid Rs. 6,268,941 for the library renovation is kept under the work in progress since there are few matters to confirm including the completion. However, we will take measures to capitalize on the same in the year 2023	Projects should be completed in time.

### 3.6 Management of Vehicle Fleet

Audit Issue	Management Comment	Recommendation
(a) Actions had not been taken to transfer the ownership of the vehicle valued at Rs.2,200,000 which was received from the Ministry of Economic Affairs in 2011 and is being used by the Institute even as at the end of the year under review.	We have taken measures to follow up on the transfer of ownership of the referred vehicle numbered GH 129 through the Ministry of Tourism & Lands.	Action should be taken to transfer the ownership of the vehicle early.
(b) The vehicle valued at Rs.860,000 which was handing over from the Sri Lanka Tourism Development Authority in the year 2009 could not be physically verified in audit as at the end of year under review.	We have taken measures to find out the documents relevant to Vehicle No. 62-100 (Van). Accordingly, we will provide a full report on the said vehicle within two weeks.	Relevant documents should be submitted to Audit early.