

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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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 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 2023, 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 Audit Observation 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	Management Comment	Recommendation
(a) 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. as per paragraphs no.13 & 26 of the Sri Lanka Public Sector Accounting Standard No.07, Neither action had been taken to transfer the ownership of those lands under the name of the Institute nor disclosure had been made regarding the above lands in the financial statements for the year under review.	Lands cannot be recognized as assets without ownership.	Action should be taken to transfer the ownership of those lands to SLITHM and record the land values in the books of accounts early.
(b) Payable valued added tax amounting to Rs.1,452,439 generated from the year 2014 erroneously in to the system, had not been corrected even as at the end of year under review as per paragraph 47 of the Sri Lanka Public Sector Accounting Standard No.03.	Will be corrected in the future	Action should be taken to correct the error.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) 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 requirement 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.	Noted	The appropriate adjustments should be made in accounts.
(b) Receivable fixed deposit interest as per the financial statement for the year under review was Rs.37,394,931. However, as per the independent calculation it was Rs.33,197,432. Thereon, a difference of Rs.4,197,499 was observed.	Agreed. Correct figures will be shown under restate figure in the preparation of accounts for the year 2024.	Correction should be made accordingly.

- (c) A difference of Rs.4,547,592 had been observed in the accrued expenses stated in the statement of financial position and given schedule to audit. Further, there were balances totalling to Rs.3,087,855 without being unsettled for more than 5 years in accrued expenses. Agreed and will be rectify Action should be taken to rectify the accounts and settle the accrued expenses.
- (d) Accrued expenses totalling to Rs.19,241,195 had not been recognized in the financial statement for the year under review. Thereon, the surplus and current liabilities had been understated from the amount. Noted and will be rectify Action should be taken to recognize the accrued expenses in the accounts.
- (e) Actions had not been taken to reconcile the physically verified inventory as at 31 December 2023 amounting to Rs.7,012,825 which was shown in the financial statements as with the balances of inventory record and identify the variances. Noted and arrangement will be made to follow the correct process in future. Action should be taken to complete the reconciliation with physical balances in time.
- (f) 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. Further, action had not been taken to adjust those into the opening balance as at 01 January 2023. Agreed and Problem will be rectifying after the fixed assets verification process completed by the third party. Stock valuation should be done accurately by a responsible officer in future.

1.5.3 Un-reconciled Control Accounts or Records

The following observations are made.

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Receivable					
i. From SLTDA	4,248,978	6,512,810	2,263,832	As per the AMC recommendation, discussed with SLTDA, SLTPB, SLTCB regarding this matter. Recently correction in progress	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.
ii. From SLTPB	5,728,382	398,575	5,329,807		
iii. From SLCB	615,018	44,405	570,613		
iv. Tourism Development Levy &	233,982,276	287,637,153	53,654,877	We recognized TDL & EL for the statement	Balances should be reconciled periodically and

Embarkation
Levy

according to the necessary steps
SLTDA should be taken to
confirmations. avoid the
differences.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount		Management	Recommendation
Evidence not available	Rs.		Comment	
STTANP other Under deposits documents	1,944,465	Receipts and source	Not given	Action should be taken to submit the proof of document or write off the balance following proper procedure.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observations are made.

Audit Issue	Management Comment	Recommendation
(a) 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.	As per the AMC recommendation, the request letter has been sent to the SLTDA for recover rent arrears for 2013-2014 and expenses for 2015-2022.	The appropriate adjustments should be made in accounts and action should be taken to clear the relevant items.
(b) 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.	After the discussion with SLCB, they agreed to settle this amount	Actions should be taken to recover the rent income balance in the year 2024.
(c) The receivable balance of Rs.370,976 from Koala (Pvt) Ltd incurred during the year 2020 had not been recovered even as at the end of year under review.	No comment	Actions should be taken to recover the balance in the year 2024.
(d) Receivable accrued expenses of Rs.3,810,324 which was receivable from SLTDA for 16 years period had not been recovered even as at the end of year under review.	Action will be taken after decision issued by outstanding committee.	Actions should be taken to recover the balance in the year 2024.

- (e) Receivables of Rs.305,350 from laundry debtors and Rs.25,678,878 from Samudra Hotel debtors had not been recovered even as at the end of year under review. Although an amount of Rs.25,984,228 were in arrears for more than 24 months. There were balances of Rs.4,068,000 from coordinating Secretary to Minister of finance, Rs.5,140,571 from Ministry of Economic Development, Rs.3,583,010 from SLTDA and Rs.5,723,382 from SLTPB in the above receivables.
- Currently the recovery procedure is in process. Meetings are ongoing for the long outstanding balances from inter institute.
- Action should be taken to recover the long outstanding receivables.

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

The under mentioned non-compliances were observed.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 5(1) of part ii of the Gratuity Payment Act No.12 of 1983.	Total gratuity payable to two officers who had retired in 2023 amounting to Rs.2,192,482 had not been paid even at the audited date of 24 April 2024, although the gratuity allowance should be paid within one month from the retirement.	No comment	Gratuity allowance should be paid within one month from the retirement.
(b) Paragraph 6.7 of Operational Manual for state Owned Enterprises (SOE) dated 16 November 2021	Annual asset verification as at the end of year under review had not been carried out and a report had not been submitted to the Auditor General to date.	No comment	Annual asset verification should be carried out and a report should be submitted to the Auditor General to date.
(c) Paragraph 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises	A strategic plan for the Institute had been prepared for the four years period from 2020-2023 and had not been updated to date.	No comment	A strategic plan should be updated.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.417,479,936 and the corresponding surplus in the preceding year amounted to Rs.125,872,269. Therefore an improvement

amounting to Rs.291,607,667 of the financial result was observed. The reasons for the improvement are the increase in Embarkation Levy Revenue by Rs.210,270,982 and increase in Tourism Development Levy by Rs.38,098,576.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Priority had not been given for the preparation and implementation marketing plan for Samudra Hotel for the year under review. Further Facilities & comfortability of rooms had not been in satisfactory level at Samudra Hotel although there were 10 nos rooms available with sea view at a key point of Kollupitiya.	Necessary action will be taken.	A marketing plan for the Samudra Hotel should be prepared and facilities & comfortability of rooms should be improved.
(b) There were facilities available in Samudra Hotel to supply 4,380 no. of room nights per year. However, it had been utilized only 494 number of room nights i.e. 11 percent from total. Therefore, action had not been taken to utilize the Samudra Hotel in an effective manner.	Repair works Completed in the year of 2023	Action should be taken to utilize the hotel economically and effectively to earn income.
(c) A sum of Rs.5,841,912 had been incurred for the renovation of Samudra Restaurant during the year under review without proper cost benefit analysis. However, planned operation of Samudra Restaurant had not been commenced by the Institute to date.	Agreed. Planned operation will be commencing in this year.	Planned operation should be commenced early.
(d) Although the no. of applications received for various courses under Hotel School for the year under review was 11,788, there were 5,912 no. of applicants or 50 percent of applicants had been registered for the courses. It was observed in audit that this situation was mainly due to lack of space for classrooms. However, action had not been taken by the management of the institute to recognize a solution and	Some of the courses requested by various institutions as weekday and weekend courses are conducted within their institution premises by the lecturers of our institution making maximum use of the available space in our institution. In addition to	Necessary action should be taken to improve the facilities of the school with the capacity improvement including hostels.

implement to fulfill the higher demand. Furthermore, action had not been taken to establish hostel facilities to hotel school branches in rural areas which could be accommodate fully in those classrooms.

the main courses conducted by our institution, we have been working to achieve the purpose of our institution by introducing short-term courses and focusing on regional schools by providing the necessary physical resources to those schools

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| (e) | There was a 2 percent provision made on Service charges of Samudra Hotel from the year 2008 to cover the damages of equipment. However, the balance as at the end of the year 2018 amounting to Rs.546,689 had been remained unchanged even as at the end of year under review. | No comment | Provision made on Service charges of Samudra Hotel should be utilized to cover the damages of equipment. |
| (f) | Cost of sales of the Samudra Laundry had been increased by 12.76% comparing with the preceding year laundry income. Thereon, gross profit ratio of Laundry also had been decreased by 18.76% percent. This was mainly due to not revising laundry prices against the increase in direct cost. Further, in the preceding year laundry had recorded a surplus of Rs.1.9 million while recording a deficit of Rs.459,607 in the year under review which was mainly due to not considering to minimize the cost and review the laundry income. | Necessary action will be taken & rate revision has been approved by Board of management & implemented from May 2024. | Necessary action should be taken to revise the rates and minimize the cost. |
| (g) | Unidentified direct deposit totaling to Rs.1,842,398 from February to November 2023 to the bank account no. 0007120156 had not been recognized and adjusted to the cash book even at the end of year under review. | Agreed | Unidentified direct deposits should be recognized as soon as possible. |

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Although the approved cadre of Samudra Hotel is 27 no of employees, there were 19 employees at present. Therefore, action had not been taken fill the 08 no. of vacancies to date	Agreed. Measures will be taken for recruiting employees for the vacancies after obtaining approval from Management Service department	Action should be taken to fill the vacancies.
(b) An officer had been appointed to manage the Samudra Hotel operations as a Visiting Lecturer as per the approval granted by Board of Directors on 26 October 2023 in contrary to Scheme of Recruitment without recruiting a permanent officer and had been paid at an hourly rate of Rs.1000 for the months of November & December 2023 & January 2024. It had been increased up to an hourly rate of Rs.1800 in January 2024 by Board of Directors. Thereon, a sum of Rs.373,816 for February 2023 and a sum of Rs.300,000 for March 2023 had been paid to him.	Agreed. Necessary Action will be taken for recruiting permanent officer	Necessary Action should be taken for recruiting a permanent officer.
(c) The officer recruited under visiting lecturer category for the Supervision of laundry & conducting Lectures without recruiting a permanent officer, had been paid an hourly rate of Rs.500 and maximum 6 hours per day. However, this hourly rate had been increased up to Rs.3100 with a maximum monthly ceiling of Rs.300,000 under board approval. Thereon he had been paid a sum of Rs.300,000 each for the months of February & March 2024.	Agreed. Necessary Action will be taken for recruiting permanent officer	Necessary Action should be taken for recruiting a permanent officer.

3.3 Management of Vehicle Fleet

Audit Issue	Management Comment	Recommendation
The vehicle valued at Rs.860,000 which was handing over from the Sri Lanka Tourism Development Authority in the year 2009 could not been physically verified in audit as at the end of year under review.	No comment	Relevant documents should be submitted to Audit early.