

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 2024 comprising the statement of financial position as at 31 December 2024 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 2024, 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 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 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 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	Management Comment	Recommendation
(a) In accordance with Paragraph 47 of Sri Lanka Public Sector Accounting Standards (SLPSAS) 3, material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery, by restating the comparative amounts or, if the error occurred before the earliest prior period presented, by restating the opening balances and make necessary disclosure and required by Paragraph 54 of SLPSAS 3. However, the VAT payable amounting to Rs.1,452,439, which had been erroneously recorded in the accounting system in the year 2014 had remained without being corrected even as at the end of the year under review.	Agreed. Management has checked with the Inland Revenue Department and taken this amount as income in June.	Prior period errors should be corrected by retrospective restatement in the first set of financial statements
(b) According to the Paragraph 14 of Public Sector Accounting Standards (SLPSAS) 7 – Property, Plant and Equipment, assets that are completed and available for use should be transferred from Work in Progress (WIP) to the appropriate Property, Plant and Equipment (PPE) accounts. However, the value of the completed projects amounting to Rs.8,976,462 had remained as WIP without being transferred to PPE. Further, the associated depreciation of Rs.2,236,250 on such assets had not been made in the financial statements.	Agreed. Necessary actions will be taken to prevent this in the future.	Completed work should be transferred to PPE, and depreciation should be charged immediately.

- (c) According to the Paragraph 47 of Sri Lanka Public Sector Accounting Standards (SLPSAS) 7 – Property, Plant and Equipment, when the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. However, the action had not been taken to revalue the four fully depreciated vehicles still being used by the institute and make necessary adjustments in accounts accordingly.
- Agreed. Asset revaluation is planned to be conducted in the financial year 2025.
- The action should be taken to revalue the fully depreciated vehicles.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Rent income receivable from Tourist Police Unit amounting to Rs.3,192,000 remained since year 2014 without being recorded and no provision for impairment had been made in this regard.	Based on AMC from 2013 to 2014 the provision for rent receivable has been accounted based on the building space utilization by the tourist police. Tourist police had not been agreed to settle the payment since they don't have any agreement with the Institute. Still, this in a discussion level among inter company management.	Income should be collected immediately and provision should be made for impairment.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per Corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
(a) Receivable from Tourism Development Fund	383,613,503	370,233,945	13,379,558	Sri Lanka Tourism Development Authority account balance included only Tourism Development Levy/Embarkation Levy income receivables relevant only to financial year 2024.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.
(b) Receivable	4,577,950	41,300	4,536,650	Our total trade	

from Sri
Lanka
Tourism
promotion
Bureau

receivables from Sri
Lanka Tourism
Promotion Bureau is
Rs.4,577,950.

1.5.4 Suspense Accounts

Item	Amount Rs.	Period in Suspense	Management Comment	Recommendation
Application fees	4,056,194	Application fees received from course applicants during the years 2023 and 2024 had not been recognized as income in the respective accounting periods and credited to an unidentified deposit account.	Agreed. Management has had a several discussions with the bank and respective department heads to identified those balances and as of today, management has been able to reduce this balance up to Rs.3,000,000.	Income should be recognized immediately.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
Work in progress	1,317,600	Contract Files, Agreements and Completion Reports.	It has been corrected. passed the JV in May 2025.	Proper books and records should be maintained by the Institute

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
According to the ledger, accrued expenses in Colombo amounted to Rs.39,907,438. However, the corresponding schedule reflected a balance of Rs.40,601,075, resulting in a discrepancy of Rs.693,637.	Agreed. This difference has been identified & corrected.	Balances should be reconciled periodically and necessary steps should be taken to avoid the differences.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No.01/2021 dated 16 November 2021			
(i) Paragraph 3.4 of Operational Manual	The Institute had not prepared its own succession plan as of the date	No comments	A succession plan should be prepared.
(ii) Paragraph 2.3 of Guidelines on Corporate Governance	The strategic plan should be prepared for a five-year period and submitted to the General Treasury. Further, the plan should be updated annually in line with changes in the business environment and submitted to the General Treasury no later than 15 days prior to the commencement of the ensuing year. However, a strategic plan for the Institute was prepared for a four-year period from 2020–2023 and has not been updated to date.	No comments	A strategic plan for the Institute should be prepared and submitted to the Treasury on time.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
Unidentified credit card deposits amounting to Rs.585,139 carried forward from the previous year had not been reconciled as at December 31 of the year under review.	Agreed. We will take actions to identify and clear these balances.	Unidentified balances should be reconciled and income should be recognized in the respective accounting periods.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.462,289,004 and the corresponding surplus in the preceding year amounted to Rs.405,202,482. Therefore, an improvement amounting to Rs.57,086,522 of the financial result was observed. The reasons for the improvement is increase of Tourism Development Levy income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A hotel (Samudra Hotel) managed by the Institute had not been renovated in 5 years and the fees charged for the rooms had not been revised in 10 years.	The Samudra Hotel underwent, minor maintenance and major renovation in 2023 with a full renovation planned for 2024. The Board outsourced refurbishment to reputed hotel chains, causing rooms to be closed from October 2024 to April 2025. The board sought approval to reopen rooms with existing facilities due to rising demand, emphasizing the need for essential maintenance, refurbishment, and marketing. A committee was appointed to develop a business and marketing plan, and urgent maintenance was completed by first quarter of 2025	Action should be carried out in accordance with the Action Plan.
(b) Consumer awareness of the restaurant was minimal as the Restaurant in Samudra hotel did not employ the necessary strategic marketing methods to increase sales revenue.	The Marketing Division has launched several initiatives to promote Samudra's services, including outreach to government entities, onsite promotions with banners, a planned street campaign, and business development visits to private companies. Additionally, steps have been taken to hire a digital marketing partner to strengthen online presence. These activities aim to boost visibility, attract customers, and position Samudra as a preferred venue for dining and events.	Strategic marketing methods should be introduced for the increase sales revenue

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Although more than 15 years have passed since the establishment of the Samudra Hotel, an updated computerized information system had not been established to ensure that relevant departments were aware of the information related to accepting customer orders and providing relevant services.	The requirement for POS System for Samudra has been identified and included in 2024 budget. However, due to the shortage of statutory income this item had to be postponed to ensure other critical operational requirements are met. This requirement has been included to the budget FY2025.	Updated computerized information system should be established

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
As per the Government Procurement Guidelines 5.4.8, a performance security of not less than 5 percent of the estimated contract amount is required for the work to protect the integrity of the procurement in case the contractor breaches the contract agreement. However, no performance security had been obtained from all contractors in relation to the procurement for the renovation of the Restaurant in Samudra hotel.	The performance bond has not been collected at the time of signing the contract, despite the contract value exceeding two million. However, the contractor completed the work successfully and in full compliance with the requirements of Institute. Moving forward necessary steps are being taken, here in after for the receipt of performance bonds for contracts valued at five million and above, in accordance with the new procurement guidelines.	Performance security should be obtained as per the Procurement Guideline.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The approved Scheme of Recruitment allows employees with minimum educational qualifications and five years of service to be promoted to Management Assistant (MA 1-2). Priority should be given to internal applicants for these vacancies, while external candidates should only be considered if no qualified internal applicants are available. However, six Management Assistant vacancies were filled by external candidates without considering eligible internal staff.	As per the recruitment review under guidance of Prime Minister's Office, 27 urgent vacancies including Management Assistant (Non-Technical) positions were approved. The process involved a public advertisement, a common examination, and interviews, with the aim of attracting qualified individuals with subject knowledge, computer skills, and language proficiency to support the Institute's strategic goals and management decisions.	Employees should be recruited as per Scheme of Recruitment.

- (b) Since 2018, no permanent appointment for the Laundry Operations Officer position had been made, and an individual was engaged on an allowance basis, exceeding the approved monthly salary of Rs.77,655. During the year reviewed, total payments amounted to Rs.3,302,400, resulting in an excess payment of 2,370,540.
- Institute has attempted to recruit a Laundry Operations Officer through various advertisements, but the low salary offered has made it challenging to find qualified candidates. Mr. A. Cumaraswamy, a visiting lecturer with over 50 years of experience, has been overseeing the laundry unit, which is used for student practical and revenue generation, and his appointment and payments have been approved by the Board of Management.
- A permanent officer should be appointed as the Laundry Officer according to the SOR.