

## **1.1 Opinion**

The audit of the financial statements of the Canowin Hotels and Spa (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## **1.2 Basis for Opinion**

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 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 Company’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 intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 Company.

## 1.4 Auditor's Responsibilities for the Audit of the 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 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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company 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 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>a) According to the section 27 of LKAS 01 - Presentation of Financial Statements, entity shall prepare its financial statements using accrual basis of accounting, except for the statement of cash flows. However entity had not used accrual basis of accounting the arcade tube well electricity bill for the month of November and December 2018. Accordingly electricity expenses for the year under review had been understated by Rs. 34,708.</p>	<p>The Tube-well electricity meter not in the Arcade premises but fixed at a outer location.</p>	<p>Should comply with the standard to present accurate and complete financial statement.</p>
<p>b) According to the section 13 of LKAS 18, revenue should be deferred and recognized over the period during which service is performed. Thus entity had invoiced Rs.240,000 to oriflame lanka (pvt) Ltd to provide the service for 6 months from 2018 December to May 2019, though entity had not consider to defer the income over the period of six month and entity had considered the total invoice amount of Rs.240,000 as revenue for the reviewed year , therefore income had been overstated by Rs. 200,000.</p>	<p>This matter will sorted out soon as we hare processing the matter in detail.</p>	<p>Should comply with the Standard.</p>

## 1.5.2 Accounting Deficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) A difference of Rs 28,356 was observed at the time of computing the the interest income as the interest income shown in the financial statement was Rs.13,055,259 instead of Rs.13,083,615.	Matter will be sorted with the Bank concerned and inform you accordingly.	Immediate steps should be taken to correct the same in the accounts.
b) The company had made the provision for Medical expense, instead it had settled the same as separate expenses, and hence profit for the year was understated by of Rs.960,000.	This was approved by the former Board Directors and we will make arrangements to revise the new Medical Reimbursement Policy.	Steps should be taken to use the provisions made for Medical expenses.
c) The company had canceled the cheque No 302958 amounting to Rs. 38,700 which was given for fuel allowance of to Managing Director and reissue another cheque for same amount, but the management did not pass entries for canceled cheque, hence, the fuel allowance was duplicated in the accounts.	Will be cleared.	Steps should be taken to correct the accounts.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) According to the selected sample of account receivable balances, 17 balance confirmations requested had been sent to the debtors. Three confirmations received out of 17 were also deviated from accounted balances as at 31 December	Currently in the process of sorting the above 3 Debtors by the Company.	Steps should be taken to reconcile and correct the differences.

2018. Details are as follows.

Name of Account the Debtor	Confirmed as balances at 31 at December 2018 (Rs)	Deviatio as n (Rs.) 12/31/2018 (Rs.)
Bank of Ceylon	178,866	165,366
Gills food productes (pvt) ltd	2,730,987	Nil
Litro Gas Lanka Ltd	1,229,721	456,794
		13,500
		2,730,987
		772,927

b) Following customers had been vacated the premises, but the company had not collected there overdue balances as at 31.12.2018

Legal Action has been instituted by the Company.

Steps should be taken to recover the balances from customers.

Name of Tenant	the Vacate date	Overdue balance as at 31 /12/2018 (Rs.)
Bashitha Kashmi Jayalath	12/31/2017	662,912
Walker CML Properties (Pvt) Ltd	31/05/2018	99,444

### 1.6.2 Advances

Audit Issue	Management Comment	Recommendation
The company had paid Rs.1,277,600 as advance legal fee on the case of Canowin Hotel & spa (pvt) Ltd vs Road Development Authority. This case was settled on 25 September 2018. However the advance amount was not cleared until the end of audit	Legal Case was settled by both parties. The Company will receive the Deposit of Rs. 1,000,000.00 placed at Colombo High Courts in due course. This was already requested by the Company.	Steps should be taken to clear the advance amount.

date of 31 May 2019.

### 1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
a) There was a difference of Rs. 3,841,658 between the amount paid to related party and the amount shown in the financial statement.	Company needs more time to rectify this matter.	Steps should be taken to rectify the matter immediately.
b) The company had made provision to make payment to Canwil Holding private Limited which is a related company of Rs. 693,578. But this amount had not been mentioned under the related party transaction.	Company will discuss this matter with Canwill Holdings and revert back with the findings of same.	Steps should be taken to disclose all information with regard to related party on the accounts as per the standard.

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

Reference to Laws, Rules, Regulations etc.	Management Comment	Recommendation
a) Inland Revenue guideline no: MF/FP/13/CM/2018/82 issued by Deputy Secretary to the treasury on 20/06/2018.	According to the above guideline, Entity shall value the non-cash vehicle benefit (vehicle & driver) as Rs. 45,000 for the vehicles whose engine capacity is more than 1800cc from 1/04/2018 for the PAYE (Pay As You Earn) tax purpose. Though entity had not considered the vehicle benefit provided to the executive director for the PAYE tax computation. Due to	This will be recover and arrangements will be made to pay.
		Should comply with the Act.

that weakness, PAYE tax of Rs. 81,000 had not been paid for the last 9 month of the reviewed year.

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| <p>b) According to Economic service charge (Amendment) Act No.07 of 2017</p> | <p>According to Section 02 Subsection 2 (C) every person or partnership should register for Economic service charge (ESC), if the liable turnover of quarter is 12.5 Mn or more for any quarter commencing on or after 01/04/2017, shall pay the Economic Service Charge at 0.5% of turnover. Therefore entity shall be liable to pay Economic Service Charge from 01 April 2017. Thus entity had not complied with accordingly to pay the Economic Service Charges from 01 April 2017 to 31 March 2018. An unpaid Economic Service Charge was Rs. 545,325.</p> | <p>Company is computing the final calculation and organize the payment accordingly.</p>  | <p>Should comply with the Act.</p>      |
| <p>c) Public Enterprise Circular No PED 1/2015 (i),</p>                      | <p>An Officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport Allowance of Rs 50,000 and monthly fuel allowance applicable to the post. Thus managing director of the entity had obtained the transport allowance of Rs. 150,000 per</p>   | <p>According to the Circular No. PED 1/2015 (i), transport allowances have not been calculated but since the inception the Company has paid a Transport Allowance to the Managing Director with a Board Decision. Further, the Company is coming under F Category.</p> | <p>Should comply with the Circular.</p> |

month and PAYE liability (28,571 per month from 1/1/2018 to 31/03/2018 and Rs. 37,500 from 1/4/2018 to 31/12/2018) instead of applicable allowance of Rs. 50,000 per month.

Further according to above mentioned circular, an officer who is entitled to vehicles and obtained the transport and fuel allowance, shall not be provided with a driver or driver's allowance. However the entity had paid Rs. 803,997 as the salary for the managing director personal vehicle driver for the year under review.

This was paid according to the Board Approval given in the inception of the Company which has not been changed.

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| <p>d) According to the section 6.4 of National policy on Alcohol control which published in the extraordinary gazette No: 1967/62 of Democratic Socialist republic of Sri Lanka dated 20 May 2016</p> | <p>According to the section 6.4 of the gazette serving alcohol products at the event using public fund should be discontinued. Thus entity had spent Rs 48,810 for the liquor and related expense at annual trip taken place on 11th and 12th of May 2018</p> | <p>This will be rectified and reimburse from the personnel concerned.</p> | <p>Should comply with the gazette.</p> |
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 54,595,289 and the corresponding profit in the preceding year amounted to Rs. 49,369,773. Therefore an improvement amounting to Rs. 5,225,516 of the financial result was observed. The reasons for the improvement were significant increase of other operating income by Rs. 11,655,779, increase of categorically



income from sanitary comfort service by 29 percent and increase of income from promotion campaign by 1020 percent.

## 2.2 Trend Analysis of major Income and Expenditure items

The following table indicates a summary of major Income and Expenditure items of the company in the year under review as compared with the preceding year.

Description	2018 (Rs.)	2017 (Rs.)	Difference	Difference in %
			( Favorable/ Adverse) (Rs.)	
Revenue	97,835,928	99,806,723	(1,970,795)	(2)
Gross profit	63,932,962	61,760,596	2,172,366	4
Other Operating Income	17,266,277	5,610,498	11,655,779	208
Administration Expenses	44,289,159	35,394,636	(8,894,523)	(25)
Selling and Distribution Expenses	8,758,848	1,918,401	(6,840,447)	(357)
Profit After Tax	54,595,289	49,369,773	5,225,516	11

## 2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

Ratios	2018	2017
Current assets ratio	6.87	6.87
Quick assets ratio	6.87	4.75
Gross profit ratio	65.35	61.88
Return on capital employed	5.22	4.91
Gearing Ratio	6.47	8.22

### 3. Operational Review

#### 3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
According to the overtime policy of the company, it pays 3 hours over time per shift and Sunday was considered as double over time day, but company had considered Sunday also as 3 hour shift and paid over time. Examples are as follows.	Matter is cleared.	Steps should be taken to recover the over payments.

Month	Sunday Shifts	Over work hours	Over payment (Rs.)
Aug-18	127	381	32,147
Sep-18	148	444	37,462
Oct-18	121	363	30,628
Nov-18	120	360	30,375
Total			130,613

#### 3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a) The company had not taken steps to collect the over payment amounting to Rs. 2,307,660 made for contractors during the past period.	As the stated accounts are quite old, Company will go through all related documents and take steps accordingly.	Steps should be taken to recover the over payments.
b) Company had not taken steps to recover the default payment of Rs. 7,736,838 from Makrin Restaurant and Bakers even though it exceeds two years.	Litigation has already been started.	Steps should be taken to recover the default payment.

### 3.3 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Even though the company terminated the contract with supplier, security/refundable deposit amounting to Rs. 632,800 had not been recovered until the date of audit completion of May 2019.	Will take immediate action to sort this issue.	Steps should be taken to recover the refundable deposits made to the suppliers.

### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The upper floor of the arcade “A” side and “ B” side had not been utilized from year 2012 to audited date of May 2019, which consists of square feet of approximately 3004 per each side.	Company has planned for a new project for the utilized space in the upper flow before end of 2019.	Immediate steps should be taken to utilize the space in the upper floor.

## 4. Accountability and Good Governance

### 4.1 Internal Audit

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The company’s internal audit division had not been functioning from April 2018 to date that is May 2019.	Company will implement an Internal Audit Division as soon as possible. In the process of organizing with a Board Approval.	Steps should be taken to implement an Internal Audit Division.

### 4.2 Audit Committee

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A separate audit committee had not been established to review the operation independently and to recommend the effective action to the Board for their timely decision making.	Company will appoint the Audit Committee at the next Board Meeting.	Steps should be taken to appoint an Audit Committee.

