

Hotel Developers (Lanka) PLC - 2019

1.1 Opinion

The audit of the financial statements of the Hotel Developers (Lanka) PLC (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 2019, 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 intend 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 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 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.
- 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.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.312,448,000 and the corresponding loss in the preceding year was amounted to Rs. 126,461,000. Therefore a deterioration amounting to Rs.185,987,000 of the financial result was observed. The decrease in room revenue was the main reasons for the deterioration during the year under review.

2.2 Ratio Analysis

Some important accounting Ratios of the Company for the year under review as compared with the previous year are as follows.

	2019	2018
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Gross profit margin (%)	51.24	50.96
Profit mark up (Gross profit on cost of sales) (%)	105.08	103.94
Net profit ratio (%)	(11.31)	(4.38)
Beverage Cost Percentage (%)	0.85	0.87
Finance cost on turnover (times)	0.017	0.014
Inventory turnover (times)	25.23	23.49
Food Inventory Turnover (times)	122	103
Current ratio	0.94	0.79
Acid test ratio	0.88	0.72

Average Room Rate (Rs.) 16,515 22,947

When compared with the preceding year, the gross profit margin of the Company and the profit markup of the year under review had increased by 0.28 per cent and 1.14 per cent respectively. The net profit ratio of the year under review had shown negative 11.31 per cent when compared with the negative 4.38 per cent of the preceding year.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
In analyzing the position of current assets and current liabilities of the Company, a negative working capital of Rs.43,767,000 was observed during the year under review.	Noted	Working capital should be managed carefully.

4. Accountability and Good Governance

4.1 Audit Committee

Audit Issue -----	Management Comment -----	Recommendation -----
In terms of Paragraph 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, at least four meetings of the Audit and Management Committee should be held per year. However, only three committee meetings had been held during the year under review.	Agreed.	Should be adhered to the provisions in the circular.