

Hotels Colombo (1963) Limited - 2019

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Hotels Colombo (1963) Limited (“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 Statement of Cash Flow 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

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 Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5.4 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 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.

1.5 Audit Observation on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
(i) The Company has not maintained a proper fixed assets register and an excel data base is used as the fixed assets register without proper controls which include only the basic information about the fixed assets.	Basically we already taken the all item list with proper identification along with external party and they will supposed to submit their final report. Once the report is finalized we can maintain the fixed assets register.	It is recommended to maintain a fixed assets register with all necessary information.
(ii) It was observed that the Company identified the slow- moving items manually and the system did not have the option to identify the slow-moving items at a given time.	Will update & modify the IDS system.	It is recommended to modify the inventory module to identify the slow-moving inventories.
(iii) Lack of information availability for the management for effective and efficient management of inventories, incurring of high cost, effort and resources to maintain manual record of inventories, less reliability of information generated through manual records, increase the risk of irregularities, anomalies and manipulation of financial records, difficulty when ascertaining the adequacy of the allowance made for obsolete and slow moving items were observed as	We will update the system accordingly and we already request a proper system change. Because current system (IDS) is not user friendly.	It is recommended to review the existing systems and procedures in relation to inventory management and consider implementing inventory modules to monitor and control inventory movements.

weaknesses relating to the inventory management system of the Company.

- | | | | |
|-------|--|--|--|
| (iv) | Lack of effective controls over trade and other receivables towards transaction processing to ensure completeness, accuracy and correct posting of transactions such as sales invoice recording, receipting and applying debtor payments was observed. | Noted, we will implement a proper system to identify long outstanding balances, and will do the relevant adjustment once obtain the relevant approval. | It is recommended to strengthen the controls over trade and other receivables. |
| (v) | Approved bank reconciliations prepared for Bank of Ceylon Metropolitan and Corporate branch accounts have not been provided by the Company. As well subsequent adjustment made in the financial statements relevant to the bank balances were not incorporated into the bank reconciliations. | Noted. Will implement the take authorized signature on bank reconciliations. | It is recommended to approve the bank reconciliation by a responsible authority of the Company and to incorporate subsequent adjustments made in the financial statements relevant to the bank balances into the bank reconciliations. |
| (vi) | Making bank deposits at several times subsequent to the reporting date without being deposited at once, considerable delays when depositing money and using collection for petty cash transactions without banking for main operations were observed as internal control weaknesses relating to banking operations of the Company. | Already we implemented daily sales cash banking. | It is recommended to strengthen the internal control over banking operations. |
| (vii) | It was observed that instead of using main bank accounts, the Company has used the petty cash for the transactions and payments of its main operations. | Noted. Already we implement a policy to deposit daily sales cash. Thus in future it will never happen. | It is recommended to use main bank accounts of the Company for the transactions and payments relating to main operation. |

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Audit Issue	Management Comment	Recommendation
(i) An impairment assessment has not been carried out by the Company for its property, plant and equipment at the reporting date and relevant disclosures has not been made in the financial statements with regard to the key assumptions made by the management and the results of the impairment assessment as required by the Sri Lanka Accounting Standard (LKAS) 36.	Agreed. We will maintain the detailed document on an annual basis along with the carrying values of assets are fairly stated and will disclose the relevant disclosures in financial statement as required under LKAS 36.	It is recommended to undertake impairment assessment with detailed documentation, on an annual basis and to ensure that the carrying values of assets are fairly stated and also recommended to make relevant disclosures in the financial statements as required under LKAS 36.
(ii) Though it is required to revalue the Company's property, plant and equipment at least 3 to 5 years, as per Sri Lanka Accounting Standard (LKAS) 16, it was observed that the Company has not revalued their property, plant and equipment for 7 years.	We already did the revaluation in 2021. Once the valuation report received, we will update the financial based on the report.	It is recommended to comply with the requirements stipulated in the relevant accounting standard.

1.5.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(i) A balance difference of Rs.8,869,357 and Rs.1,612,426 was observed between the return and the ledger balance in relation to VAT and NBT respectively. Supportable evidences have not been provided by the Company to verify the accuracy of VAT and NBT ledger balances with relevant returns as at 31 December 2019.	We already in a process of submitting the relevant documents to IRD.	It is recommended to take necessary steps to reconcile the balances between returns and general ledger and make in quarries with Department of Inland Revenue (IRD) to assess the recoverable amount as of the reporting date.

1.5.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(i) Satisfactory evidences have not been provided by the Company to verify the existence of VAT receivable balance of Rs.12,146,965.	We already in a process of submitting the relevant documents to Department of Inland Revenue (IRD).	It is recommended to obtain details or make queries from the Department of Inland Revenue (IRD) to assess the recoverable amount as at 31 December 2019.
(ii) There is an amount of Rs.6,116,285 showing as unidentified deposit in bank reconciliation of BOC – Metropolitan Branch as at 31 December 2019 and satisfactory evidences were not provided for the subsequent identification of the above balances which may understate the bank balance as at 31 December 2019.	In 2020 financials, we identified those financials and assign a person to bank reconciliation preparation.	It is recommended to take necessary steps to enable the identification of unidentified deposits as of the reporting date.
(iii) Satisfactory evidences or explanations were not provided to verify the existence of cash in hand balance amounting to Rs.9,515,998 as at 31 December 2019. The surprise cash count performed subsequent to the reporting date also revealed a difference of Rs.4,208,976 between the physical cash balance and the balance appeared in the system.	Noted. The balance of Rs.9,515,998/- was deposited by subsequently and we already provided that deposit slips also.	It is recommended to provide satisfactory evidences to verify the cash in hand balance as at reporting date.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(i) A difference of Rs.3,127,053 was observed between the balance of debtor's age report and the general ledger balance as at 31 December 2019.	Noted. We will implement the module enhancing inter related functions.	It is recommended to modify the trade debtor module and enhance the inter related functions over ledger and debtor age sections.
(ii) A difference of Rs.2,253,713 was observed between the general ledger balance and the trial balance in relation to prepaid license account as at 31 December 2019.	Noted. Will update and adjust ledger balance accordingly.	It is recommended to reconcile the balance difference and take necessary steps to adjust the ledger balance.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(i)	An unadjusted debit balances amounting to Rs.2,977,298 was observed in the creditors aging report as at 31 December 2019.	Noted. Will enhance the creditor module along with system operators.	It is recommended to modify the creditor module to identify the debit balances as debtors instead of creditors or record creditor settlements accurately.
(ii)	The service charge payable balance of Rs.3,382,836 as at 31 December 2019 was not settled within a reasonable time period.	Will reconcile the actual balance and write off the rest.	It is recommended to either write them back to profit or loss for the period or take necessary steps to settle the outstanding amount.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.45.2 million and the corresponding loss in the preceding year amounted to Rs.24.7 million. Therefore, a deterioration amounting to Rs.20.5 million of the financial result was observed. Decrease of revenue and other operating income by 16 per cent and by 28 per cent respectively were the main reasons for the deterioration of the financial result during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs.)	Variance %	Reason for the Variance
Revenue from Restaurant	(14,023,084.00)	-10%	Drop of trade volume and income due to COVID 19 situation prevailed in the country.
Revenue from Apartment	(27,603,526.00)	-25%	
Revenue from Bar	(2,403,997.00)	-10%	
Other Operating Income	(2,889,334.00)	-28%	
Distribution Expenses	(6,888,428.00)	-30%	

2.3 Ratio Analysis

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

Profitability Ratio	2019	2018
Gross Profit Ratio (Percentage)	62	67
Net Profit Ratio (Percentage)	(20)	(9)
Return on Total Assets	(12)	(9)
Return on Equity	(46)	(17)
Liquidity Ratio (Number of Time)		
Current Asset Ratio (Number of time)	1.19	1.66
Quick Assets Ratio (Number of times)	1.15	1.58

All the ratios of the Company have been deteriorated during the year under review when compare with the preceding year due to increase of net loss during the year under review.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) The Company has not entered into a rent agreement (Sub lease) with the customer to rent out the "Mahasen Room" situated on the fourth floor of the Company building. The customer has used the "Mahasen Room" till end of March 2020 and the Company has recognized an income amounting to Rs.4,295,020 for the period.	We already made the police complaint and took legal actions along with the company lawyer.	It is recommended to evaluate the recoverability of Rs.4,295,020 and take necessary action to process the recoveries of receivable amount.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
(i) As per paragraph 6.5.1 of PED 12 dated 02 June 2003, the annual financial statements need to be prepared and submitted to the auditor general within 60 days after the end of each financial year. However a delay of 18 months was observed when submitting 2019 financial statements to the auditor general.	No Comment	It recommended to submit the annual financial statements to the audit within 60 days after the end of each financial year.