

Hotel Developers (Lanka) Ltd - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Hotel Developers (Lanka) Ltd (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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, 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 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 of 16 November 2021	Accounts should be submitted to the Auditor General within 60 days after the close of the financial year. However, accounts had been submitted by the Company on 18 July 2022 with 140 days delay.	The financial statement of the company is prepared based on the Audited Financial Statements of the Hotel operation which was audited by the M/s Ernst & Young. However, this time, there was a delay in finalizing the audit due to a few members involved, were tested positive for COVID 19 during the audit.	Compliance to the Circular is required.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was amounted to a loss of Rs. 957,226,000 and the corresponding loss in the preceding year amounted to Rs. 918,107,000. Therefore a deterioration amounting to Rs. 39,119,000 of the financial result was observed. The increase in finance cost by Rs.91,908,000 was the main reason for this deterioration.

2.2 Ratio Analysis

According to the financial statements presented, some important accounting ratios of the Company from 2018 to 2021 are given below.

Description	2021	2020	2019	2018
	HDL	HDL	HDL	HDL
Gross Profit Ratio %	22	25	51	51
Net Profit/(Loss) Ratio %	(83)	(81)	(11)	(4)
Revenue Expenses Ratio%	97	106	59	56
Current Ratio	0.47	0.34	0.94	0.79

Gross profit of the Company has been continuously decreased since 2018 to 2021 from 51 per cent to 22 per cent while net loss ratio has been increased from 4 per cent to 80 per cent for the same

period under the consideration. Expenses with compared to the revenue has also increased from 56 per cent to 97 per cent. Simultaneously, the current ratio was 0.79 in 2018 and was 0.47 in 2021 representing the unfavorable working capital of the Company.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) A sum of Rs.493,167 receivable from President Secretariat since 2014 had been written off during the year under review.	This matter has been discussed at the Board level on several occasions and hotel had endeavored all possible action in this regard. Subsequent to the said transaction in 2014, hotel has catered for many events at President's Secretariat for which the settlements have been done on a regular basis.	Attempts are required to recover the outstanding from government entities without delay.
(b) In order to finance the refurbishment of 250 guest rooms and to construct the Chinese Restaurant, the Company had obtained a term loan facility of Rs.1,098.4 million from People's Bank in year 2021. Out of the amount drawn down, only Rs.553 million had been spent for the said purpose of refurbishment whereas Rs.445.4 million had been spent on other operational expenses, working capital requirement of Hilton Colombo, settlement of overdraft facility and interest payment of both the term loan and overdraft facilities obtained.	The substantial amount has been provided as working capital for operational expenses were due to significant impact of hotel operation due to COVID 19 pandemic and facility was provided with deferred recovery once the hotel operation is normalized.	Term loan obtained should be utilized only for its purpose.

3.2 Operational Inefficiencies

Audit Issue

The accumulated loss of the Company as at the beginning of the year under review was Rs.7,821,569,000 and it had been increased up to Rs.8,808,317,000 as at the end of the year under review. Simultaneously, unfavorable working capital of the Company as at the beginning of the year was Rs.997,068,000 and it had been increased up to Rs.1,059,237,000 as at the end of the year under review. Although, in terms of the provisions of the Underperforming Enterprises or Underutilized Assets Act No.43 of 2011, all the shares of HDL were vested to the Secretary to the Treasury, any return has not been given to the shareholder even after 10 years of its vesting.

Management Comment

Year 2019 to 2021 were exceptional years due to the fact that the tourism industry was severely affected with outcome of Easter Sunday Attack and COVID 19 Pandemic. Prior to that, hotel was a profit making venture and such profits were utilized for financing of phase 01 renovation program without a debt exposure to the balance sheet. Now it is envisaged that upon completion of room renovation, once again the hotel will be turned in to profitable venture beginning from 2023.

Recommendation

Accelerate its direction towards profitable venues and managing working capital are required.