

## **Colombo Lotus Tower Management Private Company - 2023**

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### **1. Financial Statements**

#### **1.1 Unqualified Opinion**

The audit of the financial statements of the Colombo Lotus Tower Management Private Company for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 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.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, 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 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 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.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 13(b) relating to Articles of Association of the Companies Act No. 07 of 2007	Provision should be made in respect of the rights and obligations of the shareholders of a company. According to the Articles of Incorporation No. 02 of the Colombo Lotus Tower Management Private Company, although a Master Agreement should be entered into by the Company, the Secretary of the Treasury and the Sri Lanka Telecommunications Regulatory Commission, the Company had not acted accordingly.	Agree. Sections of Articles of Association will be amended in due course with the approval of the Attorney General.	Actions should be taken in terms of Section 13(b) relating to the Articles of Association of the Companies Act No. 07 of 2007 .
(b) Public Enterprises Circular No. PED 01/2015 (ii) dated 14 January 2022	i. Despite it had stated that the government circulars shall be applicable to all allowances paid in addition to salary as per Decision No. 13 of the Minutes of the Board of Directors Meeting dated 16 March 2023, and although the higher management level (HM1) officers are to be paid the monthly amount of litres of fuel as fuel allowance, on	Disagree.	Actions should be taken in terms of Public Enterprises Circular No. PED 01/2015 (ii) dated 14 January 2022 as per the Decision of the Board of Directors dated 16 March 2023 .

the contrary, the Company had paid Rs.4,441,459 for 19 officers in the year 2023 .

ii. A sum of Rs. 4,231,577 had been paid as vehicle allowance of the year 2023 to 20 officers who are not eligible for official vehicles.

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| <p>(c) Management Services Circular 05/2017 of the Ministry of Mass Media No. MSD/ Circular/ 2017 dated 25 October 2017</p> | <p>Despite Government circulars shall be applicable to all allowances paid in addition to salary as per the Decision No. 13 of the Board of Directors Meeting Minute dated 16 March 2023 and as the active service period of all the officers of the Company is less than 06 years and thus, the maximum professional allowance payable per month is Rs. 3,000 according to the circular, although the professional allowance payable to 13 officers of the Company in the year 2023 was Rs.282,000, the Company had paid a sum of Rs. 2,237,600 .</p> | <p>Disagree.</p>  | <p>Actions should be taken in terms of Management Services Circular 05/2017 of the Ministry of Mass Media No. MSD/ Circular/ 2017 dated 25 October 2017 as per the Decision of the Board of Directors dated 16 March 2023 .</p> |
| <p>(d) Paragraph No 5.3 of Operation Manual for State Owned Enterprises dated 16 November 2021</p>                          | <p>Although at least 30 per cent of the profit after tax should be remitted to the Treasury as dividends it had not so done. Further, since the Treasury owns the entire capital of the Company, although the remaining dividend should also be remitted to the Treasury in addition to the said 30 per cent dividend, actions had not been taken accordingly.</p>   | <p>Disagree. It is at the discretion of the Board of Directors.</p> | <p>Actions should be taken in terms of Paragraph No 5.3 of Operation Manual for State Owned Enterprises dated 16 November 2021 .</p>  |

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| (e) | Section 5.4.4 (1) of Government Procurement Guidelines | Although a maximum of 20 per cent of the contract sum may be paid in advance on production of acceptable advance payment security, the advance of Rs.65,088,221 had been paid by the Company at various percentages. | It is agreed for Rs. 65,088,221 . | Actions should be taken in terms of Section 5.4.1(1) of the Government Procurement Guidelines. |
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a surplus of Rs. 229,953,287 and the corresponding surplus of the preceding year was Rs 142,062,840 as compared that. Accordingly, an improvement of Rs. 87,890,447 was observed in financial result. Increase in total income during the year under review as compared to previous year had mainly attributed to this improvement.

## 3. Operating Review

### 3.1 Management Inefficiencies

#### Audit Observation

- (a) A consultant had been recruited for the period of 06 months from 01 January to 30 June 2023 for the souvenir shop run by the Company and it had been contracted to pay him only a monthly allowance of Rs.200,000 inclusive of all allowances in terms of Section 04 and 06 of the agreement entered into with the consultant. Nevertheless, a sum of Rs.142,800 had been paid as transport allowances by the Company to the consultant for the month of February and March 2023 in contrary to the terms of the agreement.

Further, even though it had been stated that his Job Description was attached as Annexure A according to the agreement entered into with the consultant, the attachment had not been submitted for audit. Further, the service period was extended and his salary had been increased in 02 occasions as monthly salary up to Rs.275,000 from July to 31 December 2023 and monthly salary up to Rs.300,000 from January to 30 June 2024 and the reasons for extension of the consultancy service period of the consultant were not submitted to the audit.

#### Comments of the Management

According to the reports attached with the payments, the consultant has submitted his payment requests through the running charts with the approval of the Chief Executive Officer. At the initial stage, the consultant incurred these transportation costs to meet new suppliers on behalf of the company. Therefore, this is not a monthly allowance and this has been paid as compensation by the Finance Division based on this approved document.

#### Recommendation

Actions should be taken in terms of the agreement entered into by the Company with the consultant.

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| <p>(b) The Observation Deck had been used to show the Asia Cup cricket tournament held in the year 2023 and even though the Company had spent an expenditure of Rs.1,685,469 for that, no income whatsoever had been earned due to failure of issuing of ticket for watching cricket tournament.</p>   | <p>A special ticket was not issued for this purpose and the permission was given to watch the match with the entry ticket issued for the observation deck itself.</p>  | <p>A ticket should be issued for each function.</p>                        |
| <p>(c) A sum of Rs. 81,521,995 had been received from the revolving restaurant, photo taking, children's train and souvenir shop for 08 types of income that were not recognized by the Budget of the year 2023 of Colombo Lotus Tower Company and despite the money had not been allocated by the Budget of Colombo Lotus Tower Company in the year 2023, a sum of Rs. 90,416,715 for Direct Operating Expenses of Citrus PLC Company and Souvenir Shop and a sum of Rs.168,783,217 for corporate and administrative expenses such as holiday pay, accounting service charges, Director Board allowances, entertainment expenses, traveling expenses, audit fees, telephone expenses, sanitation charges etc. had been spent.</p> | <p>There is not enough time to revise the Budget for the year 2023. This is because the feasibility of these projects has been evaluated individually and there is a contingent cost/loss if such projects are delayed.</p>  | <p>The Budget should be revised.</p>                                       |
| <p>(d) Nine debt balances valued at Rs 3,495,912 remained outstanding as at 31 December 2023, were not recovered even by 28 March 2024. The balance of this loan had been outstanding for more than a year as at that date and adequate steps had not been taken to recover these loan balances.</p>   | <p>Agree.</p>  | <p>Arrangements should be made to recover outstanding debtor balances.</p> |
| <p>(e) A 100 per cent bad debt provision had been made for the loan balance of Rs. 1,060,875 which was to be recovered from an external private company in the above debtor balance as at 31 December 2023. Thus, it had been stated to the company that the reason for the provision of bad debt was the company had to spend Rs 2,533,870 for the shop building built on the plot rented by this company to run a shop on the company premises.</p>  | <p>Agree.<br/>They were informed in writing on several occasions to settle the relevant amount and it has been informed in a letter that a sum of Rs. 2,533,870 has been spent for the value additions done in connection with the relevant stall for infrastructure development and construction works. The company has informed that it is not possible to offset the related amount and has informed in writing to settle the related</p> | <p>Arrangements should be made to recover outstanding debtor balances.</p> |

amount. We will also make arrangements to recover the relevant amount as mentioned in the future.

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| <p>(f) The salaries had been paid by preparing salary conversions including information on minimum salary base as per the Decision of Board of Directors dated 16 March 2023, performance review evaluation reports, qualifications and skills as per the job description without obtaining approval of the Board of Directors. Further, details relating to identification of excess salary paid to each officers had also not been submitted to audit.</p> | <p>Arrangements have been made before the establishment of Operational Salary Ladder in March 2023 .<br/>The performance appraisal of the Chief Executive Officer and the Senior Management has been done by the Board of Directors and has been established in March 2023 Salary Ladder.</p> | <p>Approval of the Board of Directors should be obtained for salary conversion.</p> |
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### 3.2 Operational Inefficiencies

#### Audit Observation

#### Comments of the Management

#### Recommendation

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| <p>(a) It had been contracted by Colombo Lotus Tower Management Private Company and Citrus Leisure PLC to carry out a business in the Hospitality Industry style in 25, 26, 27, 28 and kitchen of Lotus Tower Building, Colombo. According to clause 8.1 of that agreement, a management fee of 3.5 per cent of the gross income was to be paid, and according to clause 8.2, in addition to the total employee cost, another 10 per cent of that cost was to be paid every month and in addition, 20 per cent of the gross operating profit had to be paid. Due to the operations of Citrus Leisure PLC, despite having a net loss of Rs. 20,345,977 from October 2023 to 31 December 2023, the Colombo Lotus Tower Management Pvt. Company had paid Rs.1,450,700 management fee and Rs.1,067,245 employee salary cost for that period. However, the conditions of the agreement on how to act in the event of a gross operating loss occurred as above had not been included.<br/>Further, the Company did not provide</p> | <p>Disagree. The clauses of the agreement have been approved by the Board of Directors after following due process and considering the long-term business outlook.<br/>However, revised terms and conditions are being negotiated with Citrus as the operator of the agreement based on the progress of the Company in this new business.</p> | <p>Agreements should be entered into in favor of Colombo Lotus Tower Management Private Company.</p> |
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monthly targets to Citrus Leisure PLC. and a responsible officer had not been appointed to supervise its activities. Further, although the selection, appointment, termination of service and determination of wages of employees shall be decided in consultation with the Company in accordance with Section 3.1 (a) of the above agreement, the Company had not involved in the activities of selection, appointment, termination and remuneration of the employees whatsoever of Citrus Leisure PLC. As a result of that, Citrus Leisure PLC could have hired employees and decided the salary as needed and the Company had bound to pay any wages and allowances offered by the said company. Similarly, even though Rs. 1,013,910 had been paid for providing mobile phones, an approval for that had not been received from the agreement.

(b) Purchase orders were sent to the supplier for the purchase of items including uniforms for the employees of the Revolving Restaurant run by the company and total value Rs. 7,750,190 that is 70 per cent of the invoice value had been paid in advance as Rs. 495,600, Rs. 3,240,000 and Rs. 4,013,800 respectively based on 03 nominal invoices sent by him. Out of this supply, linen valued at Rs. 84,700 had not been supplied even by 27 May 2024 .

Arrangements were made to open the restaurant and banquet halls in December 2023 and there was an urgent need to procure ready-made clothes and related textiles for the employees and for that the supplier had applied for an advance for the purchase of raw materials. Considering this urgent need, the institution has released this advance amount to purchase these raw materials. For the growth of the business for these restaurants and banquet halls, employees are hired from time to time based on the demand of the employees and the ready-made clothes for them are provided by the supplier. At present most of these items have been supplied and the rest will be supplied based on future recruitment.

Advances should be paid in accordance with Section 5.4.1 (1) of the Government Procurement Guidelines.



- (c) Although an Annual Board of Survey on the fixed assets and storage materials of the Company amounting to Rs 393,621,112 should be made and reports should be submitted in terms of 6.7 of the Operational Manual for Government Owned Enterprises, The reports had not been submitted up to 27 May 2024 .
- Agree. It had been scheduled to conduct the Board of Survey as at 30 June 2024 .
- Actions should be taken in terms of 6.7 of the Operations Manual for Government Owned Enterprises.
- (d) During the physical inspection of the Lotus Tower in Colombo, names and various images were painted on the wall paints on the Observation Deck of the Tower. Even though plastic panels lit by electric lights in the Observation Deck had been installed by spending Rs. 1,084,050 to reduce the damage, they were also damaged by the spectators. Although security camera systems were installed in the Tower and employees were deployed for its operation, the Management did not deploy the minimum number of security personnel required to calculate the damage and identify the people who caused the damage and take necessary measures.
- Disagree. The persons who are not school students but damage the wall paints on the Observation Deck of Lotus Tower are produced to the police and the relevant events with those scenes were also telecast through television news. Further, an awareness programme was also conducted through news and social media to prevent such damages. Due to these programmes, this situation could be satisfactorily controlled. As a remedy to control the situation, plastic name boards with an electric light were installed and when the visitors put their hands on it, the plastic boards were damaged because the plastic boards used for that were not of the required standard (thickness of the plastic boards used was 02 mm). Also, the camera system currently installed is not capable of capturing finer views such as observing how the plastic panels are damaged when the visitors are close to them. Also, in the event of a large group of spectators, due to the heavy traffic in the Observation Deck, it is not practical for the security guards deployed for its protection to be immediately located at the relevant places.
- The Management should take actions to employ the minimum number of security personnel required.
- After considering these facts, since

the existing security camera system is not sufficient for the monitoring of the Observation Deck, efforts are being made to increase the number of cameras and to install plastic panels of a very good standard (with the thickness of 08 mm).

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| (e) | Machinery breakdown insurance and electronic insurance to be obtained by the Company in terms of Clause 7(b) of the Management Agreement signed on 02 August 2022 and 2.2(u) of the Lease Agreement signed on 10 April 2023 had not been obtained even by 31 December 2023 . | Agree. | The Company should take machinery breakdown insurance and electronics insurance. |
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### 3.3 Procurement Management

#### Audit Observation

#### Comments of the Management

#### Recommendation

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| (a) | Because of a Procurement Plan has not been prepared for the year 2023, it could not be ascertained that a reasonable procurements were made and the progress as at 31 December 2023 could not be checked.  | Agree. The Procurement Plan is being prepared from 2024 onwards.   | A Procurement Plan should be prepared and approved by the Board of Directors.   |
| (b) | Actions had not been taken in terms of 5.3.1 (d), 5.3.11 and 5.4.10 (b) of the Government Procurement Guidelines for the procurement of Rs.3,055,875 for printing and providing tickets. Further, even if it had been stipulated that the tenderer shall submit the quotations inclusive of the discount if it is offered by the bidder in terms of Section ITV 05 of the Bid Documents, despite the second lowest bidder has not done so, after the Technical Evaluation Committee recommendation dated 16 February 2023 that is 17 February 2023, a revised bid had been sent. The details of the way of the company received the revised bid had not been not submitted to the audit. | For current procurements, these procedures will be corrected and procurement activities will be conducted subject to the checking and approval of the Technical Evaluation Committee and the Procurement Committee for bid documents and newspaper advertisements. It was decided not to take bid security and performance security to encourage bidders to submit bids. The highest ticket requirement in this procurement had remained in between Rs. 500 and Rs. 200 tickets and the quantity of it has been 10,000 and 9,000 respectively. However, the Procurement Committee awarded the supply of tickets to the 02 institutes | It should act in accordance with Sections 5.3.1 (d), 5.3.11, 5.4.10 (b) of Government Procurement Guidelines and Section ITV 05 of Bidding Documents and it should disclose how the Company received the revised bid. |

(Lake House Institute and Napco Institute) as per the discount obtained from Lake House Institute, which is a public institution considering the risk of providing ticket printing with the largest amount of requirements to a single supplier due to the import restrictions at that time and not being able to issue tickets to the visitors coming to the Observation Deck, which is the main source of income for our company. In this, the Procurement Committee has decided only to avoid the risk according to the situation of the country so that there is no financial loss to our Company.

- (c) Preparation of an estimate for the procurement of tax-free supply and installation of Kids Play equipment valued at Rs.40,302,089 for the entertaining park and obtaining of the approval of the Board of Directors had not been made and 80 per cent that is Rs.32,241,671 had been paid as advance on 20 October 2023 in contrary to Section 5.4.4 (1) of the Government Procurement Guidelines. Due to the fact that this work has not been completed to be able to use even by 27 May 2024, the Company had lost the interest income from investing that money. Further, after awarding the procurement to the bidder on 01 September 2023 at a value added tax free value of Rs.40,302,089, due to the addition of import duty of Rs. 5,062,985 on 05 September 2023, which was not included in the original bid by the bidder, the new bid price had been Rs. 45,365,074 .

Due to the opinion among the suppliers about our newly established company according to the prevailing economic situation at that time, this advance has been provided with an advance security of 80 percent. The supplier has been requested to extend the security and the supplier is working on it.

At the time of submission of bids, the bidder had indicated in the bid the approximate figures of these import duties and social security duties. Our Company has not yet made any payment for taxes and the payment will be made after the taxes are actually calculated and approved.

The approval of the Board of Directors for the all purchases should be obtained. Section 5.4.4(1) of the Government Procurement Guidelines Code shall be followed. The bidding conditions should be followed and the procurement works should be completed within the due time.

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| <p>(d) Due to failure of proper preparation of Engineering Estimate and Bill of Quantity by the Engineer of the Company for modernizing the ticket counters of Company, a sum of Rs. 1,679,379 had been paid for carrying out the aforesaid work by 02 construction companies.</p>  | <p>The bids have been awarded for Rs. 1,960,800 to 02 institutions for the completion of work of changing 02 ticket counters.</p>  | <p>Engineering Estimate and Bill of Quantity should be properly prepared.</p> |
| <p>(e) Goods for the procurement of LED 20x10 screen supply, installation, testing, operation and maintenance valued at Rs 18,810,000 had been supplied to the Company on 17 May 2023 and 80 per cent of the contract that is Rs.15,048,000 had been paid. Although the contract should be completed on 02 December 2022, the contract had not been completed even by 27 May 2024 .</p> | <p>The supplier has currently delivered all the items related to the above mentioned procurement to our Company and the physical progress is about 90%. The above contract can be completed within the next two weeks after the completion of the work of the panel boards to be completed by our Company.</p> | <p>Actions should be taken to complete the procurement in due time.</p>       |