

Canowin Hotels and Spas (Pvt) Ltd - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Canowin Hotels and Spas (Pvt) Ltd (“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. 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 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 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 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation
A sum of Rs.43,049,214 or 41 percent out of other trade receivables of Rs.105,859,622 as at 31 December 2023 remained outstanding for more than 360 days. In addition, a sum of Rs.10,945,910 or 18 percent out of active tenants' receivables of Rs.59,525,782 remained outstanding for more than 90 days. Further, outstanding balance of Rs.46,988,804 or 44 percent from inactive tenants were remained for more than 90 days.	Actions are being taken to recover the outstanding amounts from the active tenants. Majority of outstanding amounts represent the rent invoices. Therefore, 2.5% penalty is charged against the arrears rent invoices as per the agreements. Additionally, warning letters have been issued to tenants who has outstanding amounts more than 90 days.	Actions should be taken to recover the due.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprise Circular No. PED 01/2021 (1) of 16 May 2023	Although losses can be written after following due process and the recommendation of Audit and Management Committee (AMC) Meeting with Board of Directors approval, Company had written off PPE amount of Rs.1,654,747 without following circular guidelines.	The Audit Committee forwarded this matter to the Board of Directors to take the final decision whether to put a police entry or to initiate legal action for the missing or unavailable PPE items. The Director Board decided not to pursue police entry or legal action. Also, the Director Board decided to remove the missing assets from the asset register.	Need to be conducted inquiry on this matter. Recover loss from responsible person and Company should draw attention to the circular guidelines.

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
It was observed that the cash amounting to Rs.374,407 collected from daily transactions in Canowin Arcade had been spent in 06 instances without depositing money to the Bank.	This money has been given due to the practical problems of sending money to service area on urgent needs. But, the money has been re-deposited as soon as possible.	Cash collected from daily transactions should be deposited to the bank.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.125,700,809 and the corresponding profit in the preceding year amounted to Rs.97,426,232. Therefore, an improvement amounting to Rs.28,274,577 of the financial result was observed. The reasons for the improvement increase in the revenue and increase in gain from change in fair value of Investment Property.

2.2 Trend Analysis of major Income and Expenditure items

Financial Line Item	Statement	2023	2022	2021	2020	2019	Improvement/ Deterioration 2022-2023	
		Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	%
Revenue		183,900	162,509	137,556	130,152	137,630	21,391	13.16
Gross Profit		148,591	131,937	109,856	109,179	102,946	16,654	12.62
Other Operating Income		11,269	5,547	2,290	747	5,303	5,722	103.15
Finance Income		74,868	45,074	12,455	15,511	17,801	29,164	64.70
Administration Expenses		70,632	58,776	43,506	60,070	64,609	11,856	20.17
Profit after Tax		125,701	97,426	58,865	36,015	41,751	31,275	32.10

2.3 Ratio Analysis

Ratios		2023	2022	2021	2020	2019
Gross Profit ratio	(%)	81	81	79.9	83.9	76.9
Return on Capital Employed	(%)	9	9	6.0	4.2	7.0
Current Ratio		11.5:1	9.63:1	8.32:1	8.6:1	7.2:1
Quick Ratio		11.38:1	9.53:1	8.26:1	8.6:1	6.9:1
Earnings Per Share (EPS)		1.44	1.12	0.68	0.43	0.48

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the inspection done by Audit on the 29 August 2024 it was observed that 2 ATM spaces were vacant out of 5 ATM spaces were in both block "A" and "B" of the Canowin arcade.	Noted. Company has requested People's bank and Bank of Ceylon (BOC) to install the ATM or CRM machine for vacant spaces.	Necessary actions should be taken to effectively utilize the space available.
(b) It was observed two LED panels located in Canowin arcade were not in operation. These panels had been constructed by Road Development Authority (RDA) with their own funds in the land leased out to the Company and the ownership of this assets had not been transferred to the company by the RDA. Either RDA or Canowin Arcade had not manage these panel to generate income to the government.	Noted. RDA agreed to shift the LED panels to a land owned by RDA if there is no any objection from the Company. As the Company declared their objection, RDA have requested the Company Chairman's permission to carry out a land survey for this LED panels shifting purpose and had granted eventually, both parties have agreed to proceed further actions immediately after doing the land survey by the RDA.	Need to come to a conclusion with the Road Development Authority.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) As per canowin arcade construction initial plan, it has proposed to plant trees in open area of upper floor in line with green concept. However, it had not been done by the Company so far from its inception.	Noted.	Necessary action should be taken to comply with initial plan.
(b) Although sales income from subway operation for the year and previous year were Rs.43,223,601 and Rs.45,847,479 respectively, loss amounting to Rs.500,651 and Rs.421,021 had been incurred. Therefore, getting negative return from this franchise is not financially viable for the company.	Noted. During the board meetings, board has discussed how to turn subway as profit making entity. If it is no longer possible, final decision will be taken after legal consultation regarding the shutdown of subway operations.	Necessary actions need to be taken to turn the Subway as Profit making entity.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Administrative office, stores and VIP washrooms are only located in upper floor area of canowin arcade and balance part of the upper floor area had not been occupied a long time. Therefore, company lost its rental income from this area.	Noted. Upper floor area was rented out for restaurants before 2018, however, tenants have left due to the less customer arrivals to the upper floor.	Necessary actions should be taken to effectively utilize the space available.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) As per the Section 4.1.1 (a) of the Government Procurement Guideline, Efficient planning of the entire Procurement process is vital to ensure timely completion of the project and to obtain the best market value for it. However, the entity had not prepared a procurement plan for the year 2023 with specific time frames.	Agreed. The Procurement Plan was prepared and was not produced at the board meeting for approval. We assure that necessary steps will be taken to rectify this deficiency for the missed one in future.	Action should be taken in accordance with the National Procurement Guidelines.
(b) A master procurement plan had not been prepared in accordance with the 4.2.1 of the procurement guidelines.	Agreed. We assure you that we will take necessary steps to correct this shortcoming in future endeavors.	- Do -
(c) The relevant procurement committee for the year 2023 had not been appointed as per the Government Procurement Guidelines.	Expecting to appoint procurement committees in future.	- Do -
(d) As per the Government Procurement Guidelines 4.3.1 (a), Total Cost Estimate including all associated costs had not been prepared for the 12 procurements.	Estimates will be prepared for purchases in future to rectify the matter.	- Do -
(e) Bids related to four procurements had not been prepared in accordance with the Government Procurement Guidelines 5.3.2 by including relevant basic information required by prospective bidders to prepare the Bid or quotation	Three purchases were made through the agencies of the brands and 01 purchase has been made with the approval of the Board of Directors.	- Do -

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| (f) | The company had not prepared bidding documents by including all the relevant information necessary for a prospective bidder to prepare a bid in accordance with the Government Procurement Guidelines 5.2.1 (a). | Noted, Necessary measures are taken to prevent such incidents. | - Do - |
| (g) | As per the Government Procurement Guidelines 6.3.6, the Company had not maintained the prescribed format for bid opening and the bid opening report had not been signed by all members of the Bid Opening Committee. | Noted, a registration book is maintaining from 08 September 2023 for this purpose. | - - Do - |
| (h) | As per the Government Procurement Guidelines 7.9.1 (a), bid documents including the manner in which the bids are to be evaluated, the criteria for selection of the bidder had not been prepared by the Company. | Noted, Necessary measures are taken to prevent such incidents in future. | - - Do - |
| (i) | Although immediately after the bid evaluation, Technical Evaluation Committee (TEC) should prepare TEC report as format given in the Procurement Manual and submit to the Procurement Committee (PC) together with all supporting documents, as per the Government Procurement Guidelines 7.11.1, TEC report had not been submitted to the PC. | Noted. After the evaluation in completed, the TEC will be preparing bid evaluation report in future if necessary | - - Do - |
| (j) | Although all the bids received at first calling should be cancelled when the rebidding was commenced as per The Procurement Guideline, 7.12.3 without cancelling previous bids all the bids including previous bids had been evaluated. | Noted, re-bidding will be done accordingly. | - - Do - |

3.5 Defects in Contract Administration

Audit Issue

Several damages in the staircases of side A and side B of the canowin arcade were observed at the audit inspection carried out on 29 and 30 August 2024. Further, it was observed that contract for repairing staircase side A had been awarded for Rs.1,480,000. Although the contract was incomplete, the Company had paid the full contract value. Repair contract of side B of this arcade had been offered for Rs.1,680,000 to the same contractor without following the Government Procurement Guidelines.

Management Comment

Noted. It was started to repair damages of Stair Cases. Terms and Conditions stipulated in the agreement signed for side A are similar to the side B as well.

Recommendation

Need to be conducted inquiry on this matter recover losses from responsible person.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue

A Corporate Plan had not been prepared for the period which is covering the year of 2023.

Management Comment

The Corporate Plan for year 2025 will be prepared with the assistance of all the departments to rectify the prevailing issue

Recommendation

The corporate plan should be prepared and implement to achieve its strategic objectives.

4.2 Environmental Issues

Audit Issue

Waste Water Treatment Plant at the canowin arcade side A, which had constructed and completed during the year 2015 were not functioning as at date of Audit. Although waste water had been outflow to the environment without treating properly, actions had not been taken to repair the waste water treatment plant. Further, no service agreement for maintenance of this Plant had been maintained as at the date of Audit.

Management Comment

The existing service provider (Sold Agent) quoted unexpected costs for the repairs and service charges, effectively leveraging their monopoly on the subject. As a result, we, as management, had to make an alternative decision to address these matters. We have recruited a machine operator to carry out the services, and we assigned another team to provide recommendations recently. Based on this, we have been addressing these issues one by one effectively. However, as an organization, we will implement permanent solutions for all technical issues and initiate services according to the service plan, while also establishing a regular preventive maintenance schedule as soon as possible.

Recommendation

Necessary actions should be taken to rectify the problem