

Canowin Hotels and Spas (Pvt) Ltd - 2016

The audit of the financial statements of the Canowin Hotels and Spas (Pvt) Ltd (“Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to frauds or errors.

1.3 Auditors’ Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Canowin Hotels and Spas (Private) Limited as at 31 December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by section 163(2) of the Companies Act, No. 07 of 2007, I state the following:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.2 Accounts Receivable

The recoverable balance as at 31 December 2016 in connection with dues from trade stalls and the other external service supplies maintaining by the Company in the Welipenna Rest Area of the Southern Expressway were amounting to Rs. 26,726,886 and it was observed in audit that the management of the Company had failed to take appropriate actions to recover that income. Out of that an amount of Rs.9,751,361 had remained unrecovered for more than 90 days.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2016 had resulted in a pre- tax net surplus of Rs.19,490,987 as compared with the corresponding pre- tax net surplus of Rs.30,228,564 for the preceding year, thus showing a deterioration of Rs.10,737,577 in the financial results for the year under review. Increase of administration expenses by Rs. 5,148,495 and sustained net loss of Rs. 10,690,248 from change in fair value of investment property as against the increase in revenue and finance income by Rs. 3,980,285 and Rs.2,869,535 respectively were the main reasons attributed for this deterioration in the financial results.

4. Operating Review

4.1 Operating Weaknesses

The following observations are made.

(a) Waste Water Disposal Project in 02 Rest Areas at Welipenna

The Company had paid a sum of Rs. 16,779,146 to 06 private institutions during the period of 2015 to 2017 for the disposal of waste water collected at 2 Rest Areas in Welipenna by using gully bowsers. The following observations are made in this connection.

- This contract had been awarded to 06 institutions without examining the licenses issued to those institutions by Central Environment Authority for the disposal of waste water.
- Only two institutions engaged in disposal of waste water have been handed over their collected waste water to the two Refining Centers at Soysapura and Jayawadanagama belonging to the National Water Supply and Drainage Board. However, it was unable to confirm that whether remaining 4 institutions had disposed their 5,265,878 liters of waste water in an environment friendly manner during the above period.
- Two gully bowsers (No. LL 2878 and No.LL 1830) were deployed for disposal of waste water and according to the certified information made available at the Waste Water Refinery Centre of the National Water Supply & Drainage Board at Soysapura, the capacity of these 02 bowsers was 13,000 liters and 15,000 liters respectively. However, the payment had been made by considering the capacity as 15,000 liters and 16,000 liters respectively. Hence, an overpayment of Rs.914,938 had been made to the contractors in this regard.

(b) Waste Water Purification Project

The Company had entered in to an agreement on 08 April 2015 with a contractor for a project of Waste Water Purification in 02 Rest Areas at Welipenna and releasing them for Gardening and Toilet Flushing.

The following observations are made in this connection

- (i) Even though the works of this project were completed at a cost of Rs.35,011,665 and handed over to the Company on 26 August 2015, a sum of Rs. 6,323,175 had been paid since that date up to 09 May 2016 for the removal of waste water by using gully bowsers as the project was not in a condition to commence the purification process.

- (ii) Quotations for the above works had not been called for by following a suitable bidding method. Further, the Technical Evaluation Committee had not been appointed for this purpose.

4.2 Items of Contentious Nature

Two name boards installed on either sides of the expressway at a cost of Rs. 1,989,489 in the year 2015 had been repaired in February 2016 by incurring Rs. 720,000. Four institutions had submitted their quotations for this work. However, other than the institution selected for this purpose, the remaining three institutions which submitted quotations was not in existence at the given addresses.

4.4 Weaknesses in Contract Administration

The CCTV Camera System installed in Welipenna Rest Area at a cost of Rs. 5,929,754 had been repaired and modified by spending another Rs. 2,460,950 in the year 2016. According to the Forensic Audit report carried out by a firm of Chartered Accountants with regard to the repairs, the following observations were revealed.

- i. The selected supplier and another institution which submitted quotations for this repairing works are the associated companies of the Company.
- ii. Another institution which submitted quotation is an institution owned by an employee of the selected supplier and according to the examination of the address given with the quotation, it was a premise of an entirely different business.
- iii. All quotations submitted are not true and are in the nature of misleading the Board of Directors.
- iv. According to the matters pointed out in the above report, this procurement process had failed to comply with following guidelines in the National Procurement Agency Circular No. 08 of 25 January 2006.
 - Maximize economy, timeliness and quality of procurement resulting at least cost together with the high quality.
 - Adhere to prescribed standards, specifications, rates, regulations and good governance.
 - Provide fair, equal and maximum opportunity for eligible interested parties to participate in the procurement
 - Ensure transparency and consistency in the evaluation and selections procedure.

5. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

Areas of Control -----	Observation -----
(a) Control over Issuing Receipts	Process of issuing receipts is not done properly
(b) Control over Payments	Though the delegation of authority had been established by the Company for authorization, in some instances the payment vouchers had not been authorized.