

## **Hotels Colombo (1963) Limited - 2020**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the Financial Statements of the Hotels Colombo (1963) Limited (“Company”) for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 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 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, except for the effects of the matters described in paragraph 1.5.4 of this report, the accompanying Financial Statements give a true and fair view of the Financial Position of the Company as at 31 December 2020 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.

#### **Emphasis of Matter**

I draw attention to Note 2.6 in the financial statements, which indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. My opinion is not modified in respect of this matter.

#### **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.

## **1.5 Audit Observation on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(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.	GOH management already in a process of hiring external party to make proper identification and evaluation of the fixed assets what GOH has. Once the assignment is finalize GOH maintain a proper 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 by enabling to identify the slow-moving inventories.

(iii)	<p>Due to the manual system of inventory record keeping, the following drawbacks were observed ;</p> <ul style="list-style-type: none"> <li>-Lack of information availability for the effective and efficient management of inventories.</li> <li>-Incurring of high cost, effort and resources to maintain manual record of inventories,</li> <li>-Less reliability of information generated through manual records.</li> <li>- Increase the risk of irregularities, anomalies and manipulation of financial records.</li> <li>- Inability to assess and maintain adequate provision for old and obsolete inventories in the absence of the inventory ageing report.</li> </ul>	<p>We will update the system accordingly and we already request a proper system change. Because of current system (IDS) is not user friendly.</p>	<p>It is recommended that the Company transition to a computerized inventory management system integrated with its accounting and operational systems which facilitate real-time inventory tracking, generate automated reports (including inventory ageing), and enhance control through access restrictions.</p>
(iv)	<p>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.</p>	<p>Noted, we will implement a proper system to identify long outstanding balances, and will do the relevant adjustment once obtain the relevant approvals.</p>	<p>It is recommended that the Company strengthen its internal controls over the receivables which include implementing standardized procedures for timely and accurate recording of sales invoices, proper receipting of payments, and systematic application of collections against outstanding balances.</p>
(v)	<p>The Company has not provided approved bank reconciliations for the Bank of Ceylon – Metropolitan and Corporate branch accounts. It was noted that the bank reconciliations for these accounts are not being prepared, indicating a lack of proper reconciliation procedures.</p>	<p>Noted. We will implement the preparation of bank reconciliation and take relevant approval also.</p>	<p>It is recommended that the Company establish and adhere to a routine process for preparing and reviewing bank reconciliations for all bank accounts, and prepare such reconciliations on a monthly basis, reviewed, and formally approved by an independent and responsible officer.</p>

### 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, Impairment of Assets.	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, Property, Plant and Equipment, it was observed that the Company has not revalued their property, plant and equipment for 7 years.	Once the completion of valuation, we will update the financials based on the report.	It is recommended to comply with the requirements stipulated in the relevant accounting standard.

### 1.5.3 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
There is a significant doubt about the going concern of the Company though it has ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity for liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations, there is	Agree with the observation and we are at present taking	It is recommended that management urgently assess the Company's ability to continue as a

significant doubt regarding the going concern assumption of the Company due to the following indicators;

- Net liability or net current liability position
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets
- Indications of withdrawal of financial support by debtors and other creditors
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios
- Inability to pay creditors on due dates
- Inability to comply with the terms of loan agreements
- Change from credit to cash-on-delivery transactions with suppliers

action to going concern and negate these taking early action factors and to mitigate risks run the hotel and maintain as a going stakeholder concern yet confidence. again.

#### 1.5.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(i) The amount of Rs.4,032,190 represents cash in hand as of reporting date and the Company was unable to provide with appropriate audit evidence or explanations to verify the completeness, existence and accuracy of the cash in hand balances as at the reporting date. During the surprise cash count, a discrepancy of Rs.3,064,590 was identified between the physical cash balance of Rs. 4,012,145 and the system-reported balance of Rs. 7,076,734.69 as at the cash verification date subsequent to the reporting date. The difference remains unexplained with satisfactory evidence at the time of verification and requires further investigation to determine its cause and ensure accuracy in the cash handling process.	Noted. We will reconcile the difference and take necessary action to avoid this kind of differences.	It is recommended that the Company conduct an immediate and thorough investigation to identify the discrepancy to determine its root cause and take corrective action. In addition, the Company should ensure to implement proper internal control over cash handling, maintain proper documentation and reconciliations, segregation of

duties of the staff involve with cash handling and reporting to minimize the cash related misappropriations and errors,

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(i) It was observed that the amount of Rs.14,302,454 was laying in VAT receivable account as of the reporting date without having satisfactory evidences for its existence.	We already in a process of submitting the relevant documents to IRD.	It is recommended to obtain details or make queries of the Department of Inland Revenue (IRD) to assess the recoverability of that amount as of the reporting date.

## 1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
(i) It was observed that related party balances and transactions had not been reconciled on a monthly basis.	Noted. We will implement a system to reconcile the transaction monthly and will do relevant adjustment on same month.	It is recommended to reconcile the related party transactions and balances on a monthly basis.

## 1.8 Cash Management

Audit Issue	Management Comment	Recommendation
(i) 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. With the current financial situations in the company we are face huge trouble to run the	It is strongly recommended that the Company cease the use of petty cash for main

day to day operations if we deposited cash to the bank. Thus, we are using sale cash to run the day to day business.

operational transactions and ensure that all significant payments and receipts are processed through the Company's official bank accounts.

- (ii) It was observed that following 78 numbers of various foreign currency receipts amounting to Rs. 1,514,471 raised during the period of 01 January 2020 to 31 December 2020 had not been deposited to the Company's Current Account on the subsequent working day. These receipts were deposited after considerable time gaps from the date of receipt. Thereby it indicates poor level of internal control over cash management.
- Agreed with the audit observation and acknowledge that aforementioned serious oversight has taken place. We have now put all checks and controls in place to prevent such repetitions.
- It is recommended that the Company strengthen its internal controls over the handling and depositing of receipts. All receipts should be deposited into the designated bank account no later than the next working day, in line with sound cash management practices. Management should establish and enforce a formal policy on cash handling and deposit timelines, assign accountability, and conduct periodic reviews to ensure compliance.

- (iii) It was observed that following foreign currency receipts in 2019 had not been deposited to the Company's Current Account up to now.
- No comments

Receipt Date	Amount
21.05.2019	USD 160
06.09.2019	USD 177
07.09.2019	USD 100
26.10.2019	USD 100

It is recommended that management immediately investigate the status of the undeposited foreign currency receipts from 2019 to determine the



reasons for the delay and take corrective action. In addition, the Company should implement stricter controls over the handling and timely deposit of all receipts.

## 1.9 Non-compliance with Tax Regulations

	Reference to Laws, Rules, Regulations etc.	Non compliance	Management Comment	Recommendation															
(i)	Section 25B of Value Added Tax (Amendment) Act, No. 7 of 2003.	<p>As per the section, the taxable period of every registered specified institution shall be one month and a return in the form specified shall be furnished for each period on or before the last day of the month after the expiry of each taxable period.</p> <p>However in following instances the Company 1 had not submitted VAT return on stipulated time period.</p> <table><thead><tr><th>Tax Period</th><th>Due Date</th><th>Return Submission date</th></tr></thead><tbody><tr><td>2010</td><td>30.04.2020</td><td>15.07.2021</td></tr><tr><td>2020</td><td>31.07.2020</td><td>15.07.2021</td></tr><tr><td>2030</td><td>31.10.2020</td><td>15.07.2021</td></tr><tr><td>2040</td><td>31.01.2021</td><td>15.07.2021</td></tr></tbody></table>	Tax Period	Due Date	Return Submission date	2010	30.04.2020	15.07.2021	2020	31.07.2020	15.07.2021	2030	31.10.2020	15.07.2021	2040	31.01.2021	15.07.2021	Agreed with the observation. 2410 return already submitted and balance two returns of year 2023 will be submitted within a month.	Need to be adhered with relevant Laws, Rules and Regulations.
Tax Period	Due Date	Return Submission date																	
2010	30.04.2020	15.07.2021																	
2020	31.07.2020	15.07.2021																	
2030	31.10.2020	15.07.2021																	
2040	31.01.2021	15.07.2021																	
(ii)	As per the assessment report issued by the Inland Revenue Department to the Company as at 30 September 2019, shows a VAT payable balance of Rs. 40,187,169. Details are as follows		Agreed with the observation. We will be in communication with IRD to settle these	Need to settle these dues at earliest to the Department of Inland Revenue..															

<b>Tax Period</b>	<b>Tax Assessed as per IRD (Rs.)</b>	<b>Penalty (Rs.)</b>	<b>Total Tax Liability (Rs.)</b>	<b>Tax Collection (Rs.)</b>	<b>Total Payable (Rs.)</b>
<b>VAT</b>					
1640	11,970,537	2,339,394	14,309,931	10,226,197	4,083,734
1710	9,462,603	995,745	10,458,347	9,186,509	1,271,839
1720	6,493,721	2,136,470	8,630,191	4,528,128	4,102,064
1740	11,275,742	2,972,787	14,248,529	8,723,034	5,525,495
1810	13,628,939	4,531,131	18,160,070	9,817,808	8,342,262
1830	11,611,297	1,908,692	13,519,989	10,158,312	3,361,677
1840	13,147,112	2,640,540	15,787,652	10,506,572	5,281,080
1910	13,048,233	2,712,432	15,760,665	10,416,565	5,344,100
1920	4,341,833	1,144,247	5,486,081	3,441,762	2,044,318
1930	3,938,284	536,541	4,474,825	3,644,224	830,601
<b>Total</b>	<b>98,918,302</b>	<b>42,972,518</b>	<b>120,836,280</b>	<b>80,649,111</b>	<b>40,187,169</b>

## 1.7 IT General Controls

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(i)	There was no proper user guideline for user creation of the IDS system and it was observed that user creations have been created with a verbal request from the employees.	We acknowledge the observation regarding the absence of proper user guidelines for user creation in the IDS system and the reliance on verbal employee requests. We agree with this finding and are taking the necessary steps to formalize a user creation process with clear, documented guidelines to prevent such occurrences in the future.	It is recommended that the Company implement a formal user management policy for the IDS system, which should include a documented and approved procedure for user account creation, modification, and deactivation.
(ii)	The IT division has not maintained a record (Change Log) including the various changes that are newly added to the system by the vendor.	We agree with the observation and will ensure that a comprehensive Change Log is implemented and maintained moving forward.	It is recommended that the IT division establish and maintain a comprehensive Change Log to record all system changes made by the vendor or internal IT staff.

(iii)	In the formal information system, there should be a separation between data entry recommendation and approval which need to be given by another higher official. However, such a hierarchy does not exist in the system and it was observed that the system has not provided facilities to identify “user authority levels” related to user accounts.	<p>• Agreed.</p> <p>We acknowledge that the formal information system does not currently support a separation of duties for data entry, recommendation, and approval, nor does it provide facilities to identify user authority levels. We will address this issue to enhance the system’s compliance with proper authorization protocols</p>	It is recommended that the system be enhanced to support clearly defined user roles and authority levels.
(iv)	There is no proper control mechanism to automatically deactivate user accounts from the system which are not used from significant time period. Therefore accessibility control over the system has been lifted.	Agreed. The system is configured to automatically expire passwords after a set period. However, the former IT department did not implement this feature for user accounts.	It is recommended that the Company implement an automated mechanism within the system to detect and deactivate user accounts that remain inactive beyond a defined period
(v)	One user account has been created for whole business units (Tap Bar Cashier, Tabrobane Cashier, Harbor Room Cashier, New Front Officer Users) instead of creating individual accounts for user wise logins. Hence it was observed that a high risk is involved due to more than one users are login to the system by using one user account and the risk of data entering and alteration of the system has increased.	Agreed. We acknowledge the concern regarding the use of a single user account across multiple individuals for accessing and altering system data. We have addressed this issue and have now implemented individual user accounts for each employee, ensuring secure and specific access to the system	It is strongly recommended that individual user accounts be created for each system user, with role-based access rights assigned according to their responsibilities.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.87.1 million and the corresponding loss in the preceding year amounted to Rs.45.2 million. Therefore, a deterioration amounting to Rs.41.9 million of the financial result was observed. Decrease of revenue and other operating income by 52 per cent and by 68 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	(54,022,640)	-43%	Drop of trade volume and income due to COVID 19 pandemic prevailed in the country.
Revenue from Apartment	(55,061,732)	-66%	
Revenue from Bar	(11,153,005)	-50%	
Other Operating Income	(5,074,208)	-68%	
Administration Expenses	(37,883,903)	-19%	
Distribution Expenses	(12,156,371)	-77%	

### 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 (Percentage)	2020	2019
Gross Profit Ratio	51	62
Return on Total Assets	(21)	(12)

Return on Equity	(696)	(46)
<b>Liquidity Ratio (Number of Time)</b>	<b>2020</b>	<b>2019</b>
Current Asset Ratio (Number of time)	1.03	1.19
Quick Assets Ratio (Number of times)	0.96	1.15

All the ratios of the Company have been deteriorated during the year under review when compared with the preceding year due to continuous increase of net loss from operating activities during the year under review.

### 3. Operational Review

#### 3.1 Management Inefficiencies

##### Audit Observation

As per the lease agreement entered between Bank of Ceylon and the Company, , the Company has to bear the electrical, drainage and water service cost for their uses. Since the management has not taken necessary action to fix a separate electricity meter, the Company had to incurred an additional amount of Rs.7,365,600 as electricity expenses for the year 2020 due to the chargers has been raised under general purpose category.

##### Management Comment

Agreed with the audit observation and we are in communication with BOC in this regard.

##### Recommendation

It is recommended that management take immediate action to install a separate electricity meter dedicated to the Company's hotel premises. This will ensure accurate measurement and billing of electricity consumption specific to the hotel, preventing unnecessary charges under the general purpose category.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation														
<p>(i) IDS Software Package/Hotel Management System</p> <p>Following observations were identified in the review of IDS software package;</p> <p>a. There was no proper agreement between the vendor and the user even though the Company had being using the software since 2006.</p> <p>b. The Company had again entered into a Product Services Contract with IDS Software (Pvt) Ltd on 17 May 2010 to purchase and maintain the said software. However, the original agreement was not available and duplicate was presented for audit.</p> <p>c. It was observed that no authorized official from Company side has signed for the agreement dated 17 May 2010. As per the payment terms of the said agreement, the agreement was terminated on 31 March 2011. However, an amount of Rs.3,327,962 has been paid for the period from 22 May 2013 to 01 July 2016 without proper service agreement between the vendor and the Company. .</p> <p>d. The original system was upgraded to a new version (Version 4.1 to Version 6.1) in the year 2016 without entering into a proper agreement between the Company and the system vendor. Accordingly, it was observed that an amount of Rs.8,546,250 was paid based on invoices presented by the system vendor for the period from 22 July 2016 to 22 June 2023 without having a valid agreement. The payment details are as follows.</p> <table><tr><th>Payment Date</th><th>Amount (Rs)</th></tr><tr><td>22.07.2016</td><td>228,000</td></tr><tr><td>13.06.2016</td><td>479,208</td></tr><tr><td>27.02.2018</td><td>1,376,041</td></tr><tr><td>29.10.2018</td><td>1,417,535</td></tr><tr><td>08.10.2019</td><td>1,205,377</td></tr><tr><td>04.08.2020</td><td>1,063,151</td></tr></table>	Payment Date	Amount (Rs)	22.07.2016	228,000	13.06.2016	479,208	27.02.2018	1,376,041	29.10.2018	1,417,535	08.10.2019	1,205,377	04.08.2020	1,063,151	<p>a. Agreed with the audit observation and we have now entered in to a new agreement.</p> <p>b. Agreed with the audit observation</p> <p>c. Agreed with the audit observation.</p> <p>d. Agreed with the audit observation.</p> <p>e. In accordance with the agreement with IDS, we are only paying annual maintenance fee and never paid any capital cost. Therefore, it does not reflect a true picture if we add up the total annual maintenance cost. However, we agree that we have not utilized the system fully and effectively, which can be due to reasons such as, lack</p>	<p>It is recommended that the Company urgently formalize and maintain proper, authorized agreements with the software vendor for all software purchases, upgrades, and maintenance services. All payments should be made only against valid agreements after thorough review of scope, terms, and necessity. The Company should adhere strictly to established procurement procedures, including competitive bidding where applicable, especially for major system upgrades or replacements. Efforts must be made to fully utilize all functional modules of the system. Additionally, robust project management and monitoring mechanisms should be implemented to ensure timely completion of system upgrades and transitions, while</p>
Payment Date	Amount (Rs)															
22.07.2016	228,000															
13.06.2016	479,208															
27.02.2018	1,376,041															
29.10.2018	1,417,535															
08.10.2019	1,205,377															
04.08.2020	1,063,151															

29.06.2021	354,380
23.05.2022	1,417,535
22.05.2023	472,512
22.06.2023	472,512
<b>Total</b>	<b>8,546,251</b>

Although the vendor had given the proposal related to the above upgration on 23 October 2013, the upgration was done in the year 2016 after 03 years from the proposal without review of scope, terms and conditions for necessity of the Company.

- e. Even though the Company had incurred a cost of Rs.11,874,212 for their information system (as mentioned in above (c) & (d), following facilities/functions developed/acquired within the system have not been used for their operations even up to the date of audit. Therefore, it was observed that the cost incurred towards the acquisition of such facilities were idle to the Company. . The details of the facilities not used by the Company are given below.

<b>Section</b>	<b>Unused facility</b>
Material Management	Purchase Requisitions
Maintenance Management	All facilities provided by IDS
HR & Payroll	All facilities provided by IDS

- f. As per the proposal dated 23 October 2013 presented by the vendor, the officials of the Company should be trained for the new upgrades. However, the relevant training records were not presented for the audit to verify the deliverables with the total cost paid.
- g. Through the board paper no. 03/680/2024 dated 31 January 2024, the board had approved the transfer of the system's version to FX-Cloud/Mobility Solution due to the outdate of the present version. The following facts were observed in this regard;

of knowledge, safeguarding against knowledge unnecessary costs transfer not and enhancing taking place overall system effectively governance and when staff is control.

changing, and not conducting training properly etc. However, we are now using all these modules except the HR and Pay Roll module which is not being used in Sri Lanka.

- f. Agreed with the Audit observation as the service provider at present has stopped supporting our existing IDS version which has become obsolete at their end, purchased in 2006. The vendor disclosed that they had stopped supporting our version long ago, and there is nobody who is conversant with this system in their

- The project was handed over to the supplier of the existing version, without following any procurement process despite switching to a new version.
- To transfer the existing system to FX-Cloud/Mobility Solution ,the Company had paid the full amount of the entire project cost of Rs. 1,360,800 to IDS Next Business Solution Pvt Ltd on 05 March 2024. However, the new system has not been installed up to the date of audit report.

company too. But we have now purchased the latest version and this defect will not be there in the future.

g. Following are the reasons for not resorting to any procurement process. We decided to go for the same version upgrade without looking for a new software. Therefore, we have to procure from the same supplier. And also, if we were to go for a new version on competitive bidder basis, we did not have competent staff to prepare RFPs, or to evaluate or look for other technical details etc. Our staff is conversant with the present system and if we happened to procure a new one altogether,



it would be a daunting task to train the staff. With the limited staff availability even to run the day to day operations diverting staff for training whilst giving them off days as per the labour regulations would have been a nightmare to us. More importantly we have obtained support for the present old IDS system with so much of difficulty and due to the goodwill created for the long relationship with the present vendors due to system being outdated already. If we are to switch to a new system, the present vendor will not support migration and stop the service exactly

on 31st March 2024 as the day of existing contract termination. In such a scenario, hotel will have no system during the interim period to operate until the new system is implemented.

(ii) CCTV System

No comments

a. A CCTV system (DVR and IP) had not covered the following locations which may affect the monitoring and security of the Company..

- Inside of the main store
- Inside of the Tiffin hut
- Inside of the Laundry reception
- Inside of the Laundry
- Dormitory near at Laundry
- Inside of Kashyapa banquet hall
- Inside of Thakshila banquet hall

a. It is recommended that the Company expand the current CCTV surveillance system to cover all critical and high-risk areas that are currently unmonitored.

b. The password for the admin account related to the control of the DVR CCTV System is with officer who had worked in the IT Division of the Company and resigned many years ago. Due to this, the current IT Division was unable to perform control activities of the system and currently no service provider for the CCTV system for maintenance and breakdowns.

b. It is recommended that the Company immediately initiate the process to regain administrative access to the CCTV system,

either by resetting the administrator credentials through the manufacturer or seeking support from a qualified CCTV technician. As well need to ensure that all the functions, documents and correspondence are taking back at the retirement or resignation.

- (iii) The provision made by the Company for replacement of breakages (cutlery items) has been disbursed among employees without purchasing new cutlery items for its use. Further there is no proper mechanism for verification of cutlery items annually and refilling breakages from the provision made in every year. Details are as follows.
- No comments
- Strictly adhere to replace/refill cutlery items out of the provision made.

Year	2020	2019
Allocation for Breakages	1,084,533	2,328,666
Purchases of cutlery items	-	-
Disbursed among employees	965,235	2,018,666
Date of Disbursement	08.04 2021	30.07 2020

### 3.3 Procurement Management Audit Observation

#### 3.3. Soft Refurbishment of the Hotel

1. During the period from September 2020 to March 2021, the State Engineering Corporation had carried out a repair project of the hotel building and following observations are made in this regard;

- (i) Though the Provisional Letter of Award was given to the State Engineering Corporation by the Cabinet on 10 October 2020 to start this project, the evidence of handing over the building to the State Engineering Corporation for repair was not presented for audit.
- (ii) Though the repair works of the building had been started on 10 September 2020, the contract between the Company and the State Engineering Corporation was signed on 04 May 2022 which was one year and seven months later from the date of start of repairs. Accordingly, repairs of the building had been done without entering into prior formal agreement between the Company and the State Engineering Corporation. For this works, the Company had paid Rs.174,364,377 to the State Engineering Corporation as at the date of audit without having any formal agreement.
- (iii) The agreement between the Company and the State Engineering Corporation was signed by one of the directors and the chief accountant of the Company. . However, it was observed that the Chief Accountant does not have the authority to sign contracts towards major transactions of the Company due to unavailability of delegated authority from the Board.
- (iv) Though the project was started by the State Engineering Corporation in September 2020 and the work was completed on 18 March 2021, the Cabinet Decision had been given on 21 December 2021 to award the project directly to the State Engineering Corporation. Accordingly, it was observed that the State Engineering Corporation was carried out their work prior to the

#### Management Comment

- Agreed with the Audit observation.
- Payment of the invoice submitted by the SEC is still pending without being finalized as the board of GOH board is not inclined to approve it.
- A discussion at the General Treasury too was conducted in this regard, and an idea came up to arrange a discussion by the General Treasury with the GOH board members by the intervention of higher official of the General Treasury, but still not materialized.
- As the GOH neon board was not properly

#### Recommendation

It is recommended that the Company establish and enforce strict procedures for project governance, contract management, and financial oversight to prevent recurrence of similar issues in future projects.

formal appointment by cabinet decision which was given 1 year and three months later from work started or 9 months after the work completion.

- (v) As per the Finance Minister's letter No. MFE/ERD/38/CM/2020/140 and dated 01 July 2020, the Cabinet of Ministers has approved the cabinet memorandum No. 20/0587/204/050 dated 26 February 2020 and authorized the Secretary to the Treasury inter alia to form a Holding Company by Consolidating the Canwill Holding Pvt Ltd, the parent company of Sino Lanka Hotels & Spa (Pvt) Ltd (Grand Hyatt Hotel), Hotel Developers Lanka PLC (Hilton) and Grand Oriental Hotel.

- Based on the Cabinet Decision, the approval of the Board of Directors of Bank of Ceylon was granted on 13 August 2020, to consolidate the Hotel with Selendiva Investment Limited (SIL). However, the Cabinet has appointed project director for the Project and the Chairman of SIL, and had instructed to the Chairman of Bank of Ceylon and the Company to do a soft refurbishment for the hotel until the consolidation is completed.
- The approval of the Board of Directors of Bank of Ceylon was granted on 25 September 2020 to facilitate and authorize the SIL to undertake the implementation of face lift for the Company and to finance the project by way of a term loan of Rs. 250 Mn to the Company. .
- As a result, a tripartite agreement was entered between Selendiva Investment Limited (SIL), State Engineering Corporation and the Company for this project on 04 May 2022.

However, the aforesaid amalgamation had not been taken place even as on the date of audit and SIL applied for voluntary winding up in March 2023.

- (vi) The Project was entrusted to the Urban Development Authority (UDA) in order to create the required infrastructure as a part of the city beautification project aligned with the Government National Policy framework

repaired by SEC we made an effort to repair same by a local company. As the reputed companies in neon sign boards quoted very high prices and some companies even did not want to come and make an inspection at least to give a quote, as the access to the neon board was very difficult. So, we found a small-time contractor who was involved in repairing the said board earlier under a company. So, we gave him an advance to buy the necessary accessories. But he was later found to be a drug addict/criminal wanted by the police. So, he was absconding and evading

under “Vistas of Prosperity and Splendor”. According to that plan, the city of Colombo is proposed to be developed as “The new Colombo of 21<sup>st</sup> Century” which includes the transformation of surrounding area of the Company to be developed as a Heritage City to attract tourism. As a result of this, a Memorandum of Understanding was signed between UDA and SIL on 02 February 2022. However, it was observed that the MOU has signed 10 months after the completion of this project works.

- (vii) Although, the Project handing over certificate of this project was given to the Company by the State Engineering Corporation, the Company had not signed the certificate by expressing their consent on successful completion. . According to the project handing over certificate, the work was completed on 18 March 2021 and the defect notification period of the project was 365 days. Therefore a report on the quality of the project should be physically inspected and given on or before 18 March 2022 to release the retention deposit. However, such report has not been obtained by the Company from consultant of the project to submit to the State Engineering Corporation.
- (viii) Even though, an official with technical knowledge should be appointed from the Company side to supervise the project (consultant and contractor), no such official has been appointed thereon. As a result, the Company could not monitor the external party’s works to ensure that works have been effectively carried out.
- (ix) On 07 June 2023, the chief engineer working in the Company informed to the Premises Department of the Bank of Ceylon about the defects in this project after the computation of the defect notification period to contractor (SEC). However, no any response was given by the Bank as at the date of audit. Defects pointed out by the Chief Engineer are given below.
  - The hotel neon sign board is not working. The pending point needs to be completed properly as per Company entrance will be so beautiful.
  - Both doors are at the Company main entrance not closing properly. There may be a safety issue due

us appearing to be a willful fraudster now, despite his history as a workman. So, we have made a police complaint against him and we appear to lose this money.

to not completing the hinges of the main door properly.

- The Company entrance area manhole covers tile work is not completed properly. It needs to have a metal frame around the manhole to cover the tile. All the tiles are damaged on the manhole covers.
- The lift landing area around the door frame walls are not completed properly, thin wood panels are damaged and cannot be repaired. This can be visible to the guests.
- 02 numbers of cast iron drain line in faced area is damaged and there is a leakage of water.

(x) As at the date of audit, an amount of Rs.174,364,377 had been paid to State Engineering Corporation prior to enter in to an agreement and Rs.43,537,132 was remain as payable (including VAT of Rs.17,694,990).

(xi) As per the Provisional Letter of Award dated 10 October 2020, the project should be completed on 24 December 2020. However, it was completed on 18 March 2021. Although it was stated orally that the extension of time had been given, no any written evidence was presented to the audit to prove the extension of time.

## 4. Accountability and Good Governance

### 4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
(i) As per Paragraph 6.6 of the Operational Manual for State Owned Enterprises issued in 2021, the accounts should be handed over to the Auditor General within sixty (60) days after the close of the financial year.	Noted. We will appoint qualified person to overlook the all financial activities and the finance department and he/she will involving for financial statement preparation.	It is recommended to submit the annual financial statements to the audit within 60 days after the end of each financial year.





