

Canowin Hotels & Spas (Pvt) Ltd - 2020

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 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 flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

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

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 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 scepticism 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 Observations on the preparation of Financial Statements

1.5.1 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs.			
Purchase of two (02) mobile phones	321,000	Payment Voucher and supporting documents	Noted, Necessary actions will be taken to prevent repetition of such incidents in future.	Management should inquire this matter and take necessary actions.

1.6 Accounts Receivable and Payable

1.6.1 Advances paid to other suppliers

Audit Issue	Management Comment	Recommendation
The difference of Rs. 597,501 had been observed between the ledger and the advance paid to other suppliers age analysis provided for the audit.	Noted, Company had been provided this schedule with a Rs.597,501/- unidentified difference. We will go through all relevant transactions with related documents in this regard and will take actions to rectify the remaining balance.	The management should identify the reasons for difference and make required adjustments.
An advance register had not been maintained by the entity therefore actions had not been taken neither to get the service from the supplier nor recover the long outstanding advances of Rs.3,567,553.	Noted, Letter of Demands (LOD) were issued against one company. Actions will be taken to rectify other balances.	The management should take necessary actions according to the agreement with the suppliers and contractors.
Actions had not been taken to get an advance bond when deliver the advance to the suppliers.	Noted, Necessary actions will be taken to prevent repetition of such incidents in future.	The management should comply with the requirement of the procurement guideline.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 37,014,719 and the corresponding profit in the preceding year amounted to Rs. 41,751,235. Therefore a deterioration amounting to Rs.4,736,516 of the financial result was observed. The reasons for the deterioration was increase of Selling & Distribution expenses by Rs. 11,452,240, reduction of revenue by Rs. 7,478,674 and reduction of other revenue by Rs.4,555,908 when compared to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

	2020	2019	2018	2017	2016
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	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue	130,152	137,630	97,836	99,807	83,340
Gross profit	109,179	102,946	63,933	61,761	34,488
Other operating Income	747	5,303	17,266	5,610	4,715
Finance Income	15,511	17,801	15,913	14,114	11,004
Administration Expenses	60,070	64,069	44,289	35,394	21,685
Selling & distribution Expenses	13,581	2,129	8,759	1,918	-
Profit after tax	36,015	41,751	54,595	49,370	12,791

2.3 Ratio Analysis

Ratio	2020	2019	2018
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Gross profit ratio (%)	84.0	76.9	65.4
Return on capital employed (%)	4.1	7.0	4.3
Current Ratio	8.6:1	7.2:1	6.9:1
Quick Ratio	8.6:1	6.9:1	6.6:1
Gearing Ratio	9.9:1	9.0:1	5.4:1

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
A total sum of rupees 137,892 had been paid to the Ceylon Electricity Board for the year 2020 as the interest on delay of electricity bill payments.	Noted, Necessary actions will be taken to prevent repetition of such incidents in future.	
A total sum of rupees 27,000 had been paid during the year 2020 as the surcharge on delay of gratuity payments.	Noted, Necessary actions will be taken to prevent repetition of such incidents in future.	The Management should ensure that the statutory payments should be made on time.
A sum of Rs. 10,260 had been incurred for the delay of filing form 20 with the Registrar of Companies for the year 2020.	Noted, Necessary actions will be taken to prevent repetition of such incidents in future.	

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The entity had purchased water on hiring basis for the consumption of arcade due to lack of water in the installed tube wells. For this purpose Rs.5,526,589 had been incurred additionally by the entity during the year under review. The lack of sufficient fixed water supply to the premises will badly impact to the effective functioning of the affairs of the arcade and the service provided by the arcade.	Noted, we have two tube wells to get water, but its capacity is not sufficient for the daily consumption. Currently the consumption is nearly 150000 liters of water per day, but nearly 100000 liters of water drained out from two tube wells. Therefore we should purchase for the shortage of water on hiring basis. Further, a request has been made to the National Water Supply and Drainage Board to obtain pipe borne water to the Welipenna service zone, which is under process.	The management should ensure the fixed and continued water supply to the premises.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
Contrary to the provisions of the section 8.3.8 of the Public Enterprises Circular No. PED 12 dated 02 June 2006 the company had paid donations of Rs. 1,700,500 for the year under review. Further no receipts or actual bills had been obtained from the beneficiaries for the donations made.	Noted, company had made donation with previous management approval and necessary actions will be taken to prevent repetition of such incidents in future. Benefices have been signed on the payment voucher as acknowledgement.	The management should comply with the provisions of the applicable laws and regulations.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
A sum of Rs. 503,000 had been paid to a private contractor on 06 March 2020 for supply and installation of exterior signage boards at arcade side A & B. According to the Procurement Guideline 8.9.1 the entity had not entered in to a formal agreement with the contractor.	Noted, We will ensure to follow the Procurement Guidelines in order that would prevent such misses in future.	The management should enter in to an agreement with the contractor in accordance with the Procurement Guideline.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
An approved cadre and an approved organization chart had not been available for the company in accordance with the section 9.2(b) of the Public Enterprises Circular No: PED/12 dated 02 June 2003.	Noted, Actions will be taken to rectify it in future.	Management should comply with the provisions of the circular.
An approved scheme of recruitment & promotion had not been available for the entity in accordance with the section 9.3.1 of the Public Enterprises Circular No: PED/12 dated 02 June 2003.	Noted, Actions will be taken to rectify it in future.	Management should comply with the provisions of the circular.
As per the section 9.7 of the Public Enterprises Circular No: PED/12 dated 02 June 2003, salaries and allowances should be based on approved schemes of recruitments. However it was noted that the entity had no proper procedure to decide pay structure for the employees.	Noted, Actions will be taken to rectify it in future.	Management should comply with the provisions of the circular.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
The company had not prepared a corporate plan in accordance with the Section 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	Noted, Actions will be taken to rectify it in future	Management should comply with the provisions of the circular.

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
The approval of the board of directors had not been obtained for the action plan prepared for the year 2020.	Noted, we will take the approval of Board of Directors for Action Plan in future.	Management should get the prior approval of the board for the annual action plan.

4.3 Procurement plan

Audit Issue	Management Comment	Recommendation
The approval of the board for the procurement plan prepared for the year 2020 had not been obtained.	Noted, we will take the approval of Board of Directors for Procurement Plan in future.	Management should get the prior approval of the board for the procurement plan.

4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal audit had not been carried out since April 2018.	Management has decided to handover internal audit functions of Canowin Hotel and Spas (Pvt) Ltd to the auditing staff of Sri Lanka Insurance Cooperation to perform the audit periodically in future.	The board of directors should ensure that effective internal audit function is in place.

4.5 **Audit Committee**

Audit Issue	Management Comment	Recommendation
According to the section 7.4.1 of the Public Enterprises Circular No. PED 12 issued on 02 June 2003, this committee should meet on a regular basis at least once in three months. However, during the period 2019 and 2020 no audit committee had been held by the company.	Company has appointed members for the Audit Committee to hold the audit committee meetings periodically in future.	The board should ensure that, the audit committee should meet regularly and oversight the affairs of the company.