

## Colombo Lotus Tower Management Private Company - 2022

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Colombo Lotus Tower Management Private Company for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity and cash flow statement 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 2022, 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.

#### 1.5 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 established among the company, the Secretary of the Treasury and the Sri Lanka Telecommunications Regulatory Commission, the company had not acted accordingly.	Answers for this will be given in a separate letter.	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	According to this Circular, the Company had paid a sum of Rs. 1,329,838 as vehicle allowance to 15 officers who were not eligible for transport facility and a sum of Rs. 643,620 as fuel allowance to 12 officers. Out of the 15 officers receiving the above allowances, a sum of Rs.188,5000 had been paid to a Business Development Manager as travelling allowances in addition to above allowances from November 2022 to December 2022.	As the Managers and Assistant Managers have to arrive day and night for the duties of the Company for operational works, this allowance has been paid after getting the approval of the Board of Directors. It should be corrected as the allowance of achieving monthly expected sales targets of the Company. The approval of the Board of Directors has been obtained for these payments.	Actions should be taken in terms of Public Enterprises Circular No. PED 01/2015 (ii) dated 14 January 2022.

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| (c) | Paragraph No. 5.3 of the Operational Manual for State Owned Enterprises dated 16 November 2021 | Although at least 30 per cent of the profit after tax should be remitted to the General Treasury as dividends, it had not been so done. | A 30% is remitted to the General Treasury after following due process on receipt of the audited accounts from the National Audit Office. | Arrangements should be made as per Paragraph No. 5.3 of the Operational Manual for State Owned Enterprises dated 16 November 2021 . |
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**2. Financial Review**

**2.1 Financial Results**

The operating result of the Colombo Lotus Tower Management Private Company, which was established in the year under review, was a surplus of Rs. 104,976,979.

**3. Operating Review**

**3.1 Management Inefficiencies**

**Audit Observation**

**Comments of the Management**

**Recommendation**

**(a) Obtaining Human Resource Management Expert Services**

A company had held workshops in 02 hotels without arranging to hold workshops in the premises of Colombo Lotus Tower for the Human Resources activities of the officers of Colombo Lotus Tower Management Pvt. Company by obtaining the contracted amount of Rs. 900,000 and a sum of Rs. 700,000 in addition to that, the actual cost incurred for the workshops had not been disclosed to the Company.

These are the programme held at Kuruwita Retreat on 08 and 09, February 2023 and the programme held at Gampaha Wet Water Resort on 28 February and 02 March 2023. Separate payments have been made for that.

Actions should be taken according to the agreement entered into with Smart Quist Company.

**(b) Even though During the physical inspection of the Lotus Tower in Colombo, names and various images were painted on the walls of the observation deck (29th floor) of the Tower to damage the wall paintings. Management was not engaged. Even though security camera systems were installed in the premises and employees were deployed to monitor it, the Management did not take necessary arrangements to calculate the damage and identify the people who caused the damage and to take actions against them.**

The observation deck is currently equipped with illuminated plastic panels in order to minimize damage. Further, the people who are harmed are monitored by the security forces and CCTV camera systems and identified persons are undergone for legal actions.

Steps should be taken to control the bad behavior of those who come to visit the Lotus Tower.

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| <p>(c) The machinery breakdown insurance and electronics insurance required by the Company had not been taken even by 30 September 2023 as per to Section 7(b) of the Management Agreement signed on 02 August 2022 and 2.2(u) of the Lease Agreement signed on 10 April 2023.</p> | <p>Currently, all the facilities of this building have not been commercialized the machinery breakdown insurance and electronics insurance are not required to be taken at present and after the commercialization of all locations in near future, an agreement will be entered into between the Management and the Sri Lanka Telecommunication Regulatory Commission and arrangements will be made to obtain the above insurance as required.</p> | <p>The safeguards of the Company should be established in accordance with agreements and as appropriate.</p>                                  |
| <p>(d) The Company had paid value added tax of Rs. 515,216 from the of the income of the Company without charging the customers in the year under review.</p>  | <p>Only the amount of Rs. 1,750,000 received by the organization from that show has been collected.</p>   | <p>The Strategic Corporate Plan and Action Plan should be prepared.</p>   |
| <p>(e) Due to the fact that the Action Plan and the Budget have not been prepared in connection with the Strategic Plan for the years 2022 and 2023, performance could not be checked as at 31 December 2022 .</p>   | <p>There was no Strategic Plan 2022 and Business Plan, and the necessary preliminary works were done to prepare these plans in the year 2023. After that, the above-mentioned plans will be prepared for the period from 2024 to 2026 by Smart Quist, the consulting firm that advises the company on human resource matters.</p>   | <p>A Strategic Corporate Plan and Action Plan should be prepared.</p>   |
| <p>(f) Although an Annual Board of Survey in the year 2022 should be conducted and the reports should be submitted, the reports had not been submitted until 31 December 2022.</p>   | <p>Agree.</p>   | <p>A Board of Survey should be carried out at the end of each year and reports should be submitted before 31 March in the following year.</p> |

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| (g) | Although a salary of Rs. 35,390,594 had been paid to 80 officers from March to December 2022, none of the officers had signed the pay slips that they had received those salaries and allowances | At that time, due to the limited number of employees in the financial and human resources divisions of this Company, this work was not done properly. | The Company should obtain signatures on the pay slips that the salary and allowances have been received from the officers. |
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### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The Company had incurred an expenditure of Rs. 2,454,000 for holding a show at the Company premises on 15, 16, 17 and 18 September of the year under review without conducting any cost benefit analysis. As a result of the Company had received only Rs. 700,000 as ticket revenue for this show, there is a loss of Rs. 1,754,000.	Agree. The main reason held this show by the Company on 15th, 16th, 17th and 18th of September was because the reaction of public opinion about Lotus Tower was not known at that time and only the Observation Deck was open to the public at that time. Due to this, this show was held in connection with the company's opening ceremony as a sales promotion activity to attract people to Lotus Tower.  The show was canceled after 18 September as Observation Deck ticket revenue has increased.	Shows should be held to make profit for the Company.
(b) Out of tickets purchased from a private company from March 2022 to December 2022, as the tickets valued at Rs. 2,087,000 of 49 ticket books were removed from use and stored in the safe in the Finance Section, there was a risk of being misused of them.	Agree. The said tickets are tickets printed on the basis of the sponsorship contribution shown by the sponsors at the time of commencement of operations and the Company has agreed to sell the tickets of a new sponsor without releasing them at the end of the sponsorship period. Therefore, the remaining tickets have been safely stored with dates and serial numbers in the safe in the finance section from the date they were received to the present that is until today.	The need should be properly identified and purchased and measures should be taken to minimize the risk of misuse.
(c) A sum of Rs. 10,131,569 had been paid in 24 cases as Rs. 1,166,487 for 04 payment vouchers based on 04 nominal invoices and Rs. 500,000 for	Agree.	Payments should not be made without nominal invoices, quotations, photocopies of invoices,

03 payment vouchers based on quotation and Rs. 5,835,078 for 11 payment vouchers based on photocopies of invoices and Rs. 185,004 for 03 payment vouchers based on e-mails and Rs. 2,445,000 as well for 03 payment vouchers without invoice.

e-mails and invoices.

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| (d) | On physical verification of the warehouse on 08 September 2023, the tickets valued at Rs. 149.7 million and 1.1 million US dollars had been insecurely stored.  | The institution has planned to reserve a safe room to keep the tickets safe.   | Cash and cash equivalents should be kept safe.                           |
| (e) | The Company had received security services from Rakna Lanka Private Company and since it had paid Rs.12,504,910 without attendance records with bills, it was problematic in audit that whether the proper officers had been employed for the security service. | Not agreed. The above service has been checked and certified against the order specification by the Head of Security for all the bills paid for all security services mentioned. Payments have been made by the Accounts Section based on the receipt of those services. | Attendance reports should be obtained while paying for security service. |

### 3.3. Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Three Television sets valued at Rs.1,190,250 purchased on 21 September 2022 remained idle in the warehouse even by 30 September 2023 .	Out of the 12 television sets purchased in the initial stage for the promotion of the sales of the company and to make aware the general public, about 09 have been used and the rest have been kept safe in the warehouse for the purpose of utilizing when needed.	The need for assets with a warranty period should be properly identified and purchased.

### 3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>(a) Since a Procurement Plan for the year 2022 had not been prepared, it was not possible to verify that reasonable procurements were made and the progress as at 31 December 2022 could not be examined..</p>	<p>After the Company inaugurated in February 2022, only a few top management officers and consultants were hired to study the resources in Lotus Tower, make a marketing plan accordingly, and make a Business Plan after a field study. Necessary arrangements were made through an interim budget. As a result of this, it was not possible to prepare a formal Procurement Plan for the Company.</p>	<p>A Procurement Plan should be prepared.</p>
<p>(b) Purchase of L.E.D Screens</p> <ul style="list-style-type: none"><li>• Obtaining an approval to purchase one LED screen from goods requisition form, 02 LED's screens valued at Rs. 50,125,000 had been purchased.</li><li>• Despite 180 days had been given to complete this contract as per No. 04 of the supplementary bid documents and as per the letter of awarding the bid, the bid was awarded to the second lowest bidder for Rs. 38,450,000 citing the L.E.D screen as an urgent requirement.</li><li>• Although 10 per cent performance security had been provided under the contract conditions No. 06 in the bid document, performance security of 05 per cent had been provided.</li><li>• Although it should have entered into a 12 month warranty and maintenance agreement as per contract conditions No. 10.2 and 29 of the bid document, the Company had not so done.</li></ul>	<p>Agree.</p> <p>This Company was established in the early 2022 and at this time, an organizational structure consisting of several positions essential for the commercialization of Lotus Tower was set up and approved by the Board of Directors. At this time as there was no need for procurement staff, no staff was recruited for procurement works.</p> <p>At this time, the procurement activities were also carried out by the Chief Financial Officer and none of the above officers had proper knowledge of public procurement activities. However, the Company has taken steps to hire a Procurement Manager soon and prepare a Procurement Time Table for future requirements.</p>	<p>Assets should not be purchased without obtaining approval. The provisions of the Government Procurement Guidelines should be complied with. The Procurement Plan and Procurement Time Table should be prepared.</p>



**(c) Concreting of Car Park**

The contract relating to concreting of car park had been awarded to the second lowest bidder for Rs. 908,000 without awarding to the lowest bidder for Rs. 662,375 .

Agree.  
Since this function was scheduled for 16 December 2022, it was decided to complete the work within 03 days. Although the lowest bidders were asked to confirm in writing that they could complete the work at the same price, they did not respond. Since this is an essential project, after discussing this, it was decided to award the contract to the bidder who submitted the second lowest bid. Further this is done by awarding the contract based on the engineer's assessment of value.

Arrangements should be made in accordance with the provisions of the Government Procurement Guidelines and with a prior plan.

**(d)** Even though the Company had paid Rs. 350,000 each and Rs. 700,000 for the construction of Canopy Roof for ticketing station and main security booth the procurement files had not been submitted for audit to verify the expenditure.

Not agreed.  
Not only the ticketing station of the Company, but also construction of the main security booth roof canopies was being conducted up to the year under review. for that, payments were made on the basis of Service Assurance Certificates No. 56 and No. 18,

Procurement files should be submitted for audit.

**3.5 Human Resources Management**

The following observations are made.

**Audit Observation**

**Comments of the Management**

**Recommendation**

**(a)** The approved staff and salary structure of the Company had been prepared without following the prescribed procedure as per No. 3.2 (ii) of the Operational Manual for State Owned Enterprises, and the approval of the Board of Directors had not been obtained for the same.

The Scheme of Recruitment (SOR) has been approved as per Sub No. 11 of the Board of Directors Meeting Minute held on 21 March 2022 and advises have been given to review it further. Further, approval has been given in that meeting to publish advertisements for the necessary posts, approve the proposed salary structure and make recruitments accordingly until commercialization takes place.

A Board of Directors should get the approval for the staff and salary structure.

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| <p><b>(b)</b> Even though 80 officers had been recruited and confirmed service in the Company during the year under review, the work was not done in accordance with an approved Scheme of Recruitment containing the qualifications, salary scales and methods of recruitment applicable to each post. As a result, whether the appropriate officers were recruited for the positions and the wages paid to them were fair could not be ascertained in audit.</p> | <p>A Scheme of Recruitment (SOR) has been prepared with details of qualifications, salary scales etc. applicable to each post.</p>  | <p>Recruitment should be made as per approved Scheme of Recruitment.</p>  |
| <p><b>(c)</b> A copy of the appointment letters issued for 80 officers who were recruited for various positions in the year 2022 had not been sent to the Auditor General.</p>   | <p>A report for those positions has been submitted to the Board of Directors and their approval has been obtained. A copy of the said appointment letters is attached in the personal files and if you require a copy of such appointment letters, we will arrange to submit them to you in the future.</p> | <p>A copy of the appointment letters should be submitted to the Auditor General.</p>  |
| <p><b>(d)</b> The educational and qualification related certificates included in the personal files of each officer had not been checked by the institutions that issued them.</p>   | <p>Original copies are checked during the interview. Further, G.E.C. General Level and G.E.C. A-level certificates and certificates related to professional qualifications are checked from the place where they are issued from the Human Resource Division by now.</p>                                    | <p>Certificates related to educational and professional qualifications should be verified from the institutions that issued them.</p> |