

Canowin Hotels and Spas (Pvt) Ltd - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
(a) The nonstandard journal entries had been passed to the System including journal entries for correction, without approval from the higher management.	The authority has been delegated to the Accountant for such functions. When he needs any clarifications, assistance, advice or approval in a particular matter, he consults MD, Chairman or Board of Directors.	Internal Control Procedures should be strengthened.
(b) The company had paid Rs. 4,113,720 on cash for 55 procurements during the year 2022 and up to July 2023 and accordingly, it was observed that there was control risk in handling cash where such payment had made exceeding the petty cash float.	Noted. We are bound to provide continuous service to customers throughout the 24 hours. Hence failures or broken down of equipment must be repaired immediately. Further suppliers were reluctant to accept cheques for payments, and they ask for cash transactions. Therefor essential materials were purchased by paying cash, after following procurement procedures.	- Do -

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
As the useful life of Property, Plant & Equipment had not been reviewed in terms of Paragraph 51 in Sri Lanka Accounting Standard 16, the estimated error on the useful life of assets costing Rs. 6,082,532 which were in use despite being fully depreciated had not been revised in terms of Sri Lanka Accounting Standard 08 and the carrying amount had not been stated in the financial statements.	Noted. The useful lives of the fully depreciated assets will be reviewed on next year and the treatments will be made according to the review	Action should be taken in accordance with provisions of the Sri Lanka Accounting Standards.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) As per the financial statement deferred tax liability was Rs. 121,676,022 as at 31 December 2022 and as per client computation it was Rs. 121,020,562. Hence a difference of Rs. 655,460 was observed in the audit. Further, it was observed that Rs. 21,923 difference in its comparative figure in note 15.1.	Noted. Internal inspection has been done regarding to this matter. That inspection revealed that, this technical issue has been occurred when linking the tax schedule to the final accounts.	Necessary actions should be taken to compute Deferred tax liability in correct manner.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
Non-refundable deposit amount of Rs. 1,663,200 of Cargills Ceylon PLC had been included in the refundable deposits from Tenants.	Although, the accounting system of the company shows a non -refundable deposit, it has been generated from the opening balance equity in 2011. However, the company only accepts refundable deposits.	Necessary actions need to be taken to clear the balance.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Lease agreements with tenants	I. Although, lessee shall not sub-let or sub lease premises or any part of that without the consent of lessor previously obtained in writing, there was not proper mechanism adopted by company to monitor such activities of tenants.	Company has granted full responsibility to Assistant Engineer and Assistant Manager-Operation to monitor and report such activates.	Chief Accounting officer of the Company Should be responsible over the operations of the Company and monitor those operations.
	II. As per the lease agreements between tenants and Canowin, all tenant shall pay utility bills within 7 days after issuance of utility	Noted. During the period, we had to face economic crisis impact, therefore, tenants have not generated sufficient	Necessary actions should be taken in accordance with the Leases agreements.

invoice in respect of water, electricity and other utilities provided by Canowin. Further to that agreement, in the event if the utility bill has not been settled by tenant on due date, utilities will be disconnected after such period. However, there were Rs. 27,430,097 outstanding for more than the said period from 24 tenants and company had failed to take actions to disconnect utilities or recover dues.

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| (b) | <p>Agreement with Wiraja Hi Vision Academy entered on 29 March 2019 for a period 10 years to provide space consisting of 330.95 square feet for operating an outlet solely for providing foods and beverages to the commuters of the Southern Expressway.</p> | <p>Even though the several noncompliances to the material provisions of the agreement has made by the Lessee and this space had been taken possessed by the Company as at date of Audit, any legal action was not carried out by the company as at date of audit with regard to this case.</p> | <p>Noted. Legal actions are being taken to cancel (to terminate) the existing lease agreement with Wiraja Hi Vision due to violation of agreement by lessee.</p> | <p>- Do -</p> |
| (c) | <p>Clause 8 (p), (q) of lease agreement No.91 which signed between Canowin hotels & spa limited and Mr. Pallewatta Wasantha Kumara Gamage (Highway medical and eye care center) on 15 November 2019.</p> | <p>Although, lessee shall not do any alteration to the premises without prior approval of lessor, separate glass structure had been built on behalf of Highway medical and eye care center in lobby area block A. But it was questionable to discover the bearer of such construction expenses as per the letter sent by Highway medical and letter of Canowin
(CANO/CHAIRMAN/2022/</p> | <p>Noted. This glass structure had been build prior 2020 and there are no any documents in this regard. Letter of Demand has been sent to recover the outstanding balance. If lessee failed to settle all the due balances within stipulated time, legal actions will be taken by legal officer.</p> | <p>- Do -</p> |

1). Any documents related to the expenses of construction of glass structure had not been submitted to the Audit. Further it is noted that Rs. 932,594 was outstanding from Highway medical & optical as at 31 December 2022.

1.8 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Return of Income for the year of assessment 2021/2022 had not been filed even 09 March 2023.	Noted. Income tax submission process is in the final stage.	Need to be filed on or before due date.

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 97,426,232 and the corresponding profit in the preceding year amounted to Rs. 58,865,666. Therefore an improvement amounting to Rs. 38,560,566 of the financial result was observed. The reasons for the improvement are increase in the Finance income and increase in gain from change in fair value of Investment Property.

2.2 Trend Analysis of major Income and Expenditure items

The analysis of Income, Administration expenses and net profit /(loss) with variances and the percentage of increase or decrease for the last five years are as follows.

Financial Statement Line Item		2022	2021	2020	2019	2018
Revenue	(Rs. 000)	162,509	137,556	130,152	137,630	97,836
Increase/ Decrease of Revenue	(Rs. 000)	24,953	7,404	(7,478)	39,794	(1,971)
Revenue Growth / (Reduction)	%	18.14	5.7	5.4	40.7	(1.8)
Gross Profit	(Rs. 000)	131,937	109,856	109,179	102,946	63,933
Increase/ Decrease of Gross Profit	00)	22,081	677	6,233	39,013	2,172
Gross Profit Growth / (Reduction)	%	20.1	0.06	6.05	61.02	3.52
Other Operating Income	(Rs. 000)	5,547	2,290	747	5,303	17,266
Increase/ Decrease of Other Operating Income	(Rs. 000)	3,257	1,543	(4,556)	(11,963)	11,656

Other Operating Income Growth / (Reduction)	%	142.23	206.56	(85.91)	(69.29)	207.77
Finance Income	(Rs. 000)	45,074	12,455	15,511	17,801	15,913
Increase/ Decrease of Finance Income	(Rs. 000)	32,619	(3,056)	(2,290)	1,888	1,799
Finance Income Growth / (Reduction)	%	261.89	(19.70)	(12.86)	11.86	12.75
Administration Expenses	(Rs. 000)	58,776	43,506	60,070	64,609	44,289
Increase/ Decrease of Administration Expenses	(Rs. 000)	15,270	(16,564)	(3,999)	19,780	8,895
Administration Expenses Growth / (Reduction)	%	35.1	27.57	(6.24)	44.66	25.13
Selling & Distribution Expenses	(Rs. 000)	16,600	13,639	13,581	2,129	8,759
Increase/ Decrease of Selling & Distribution Expenses	(Rs. 000)	2,961	58	11,452	(6,630)	6,841
Selling & Distribution Expenses Growth / (Reduction)	%	21.71	4.27	537.9	(75.79)	356.67
Profit after Tax	(Rs. 000)	97,426	58,865	36,015	41,751	54,595
Increase/ Decrease of Profit after Tax	(Rs. 000)	38,561	22,850	(5,736)	(12,844)	5,225
Profit after Tax Growth / (Reduction)	%	65.51	63.0.2.45	(13.74)	(23.53)	142.84

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for last five years are as follows.

Ratios		2022	2021	2020	2019	2018
Gross Profit ratio	(%)	81	79.9	83.9	76.9	65.3
Return on Capital Employed	(%)	9	6.0	4.2	7.0	4.3
Current Ratio		9.63:1	8.32:1	8.6:1	7.2:1	6.9:1
Quick Ratio		9.53:1	8.26:1	8.6:1	6.9:1	6.6:1
Earnings Per Share (EPS)		1.12	0.68	0.43	0.48	0.63

3 Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the Lease Agreement to the tenants, Lessee shall pay all dues to the lessor within 14 days of the invoice and in any case not later than 20 th day of the following month. However, it was observed that 17 tenants had not been paid the amount of Rs. 66,679,843 as at 31 December 2022. Further, according to the Age analysis of the Account Receivables, there were 11 tenants which having more than 02 years amounting Rs.18,605,586 and 07 tenants which having between 01 to 02 years amounting Rs. 15,885,845 without taking further action.	Following actions had been taken with board approval to recover the outstanding balances. Charge 2.5% interest as a penalty for delayed rent payments. Disconnect the utilities if the utility bills had not settled on given dates. Further, Company's legal division had sent letter of demands (LOD) for long outstanding tenants and subsequently taken legal actions if not settled.	Necessary actions should be taken to recover outstanding.
(b) According to the Lease Agreement to the tenants, if the lessee fails to make the monthly rental for three months continuously, the rent agreement will be automatically cancelled and forfeited the security deposit. However, actions had not been taken to forfeit the security deposit or recover the balance amount of 2 tenants who had abandoned their business.	This clause is included in the newly signed agreements only. For the previously signed agreements this clause is not applicable.	Necessary actions should be taken in accordance with the Lease agreements.
(c) As per the initial plan it has proposed to plant trees in open area of upper floor in line with green concept. However, it had not been done by company so far from its inception.	Noted.	Necessary action should be taken to comply with initial plan.
(d) Sales income received from subway operation for the year 2022 was Rs. 45,847,479. However total operating cost including material, labor, royalty and other was Rs. 46,268,500. Company had recorded loss of Rs. 421,021 from subway operation during the year 2022. Getting such lower return from this franchise is not financially viable for the company.	Noted. During the board meetings, board has discussed how to turn subway as profit making entity. If it is no longer possible, final decision will be taken after legal consultation regarding the shutdown of subway operations.	Necessary actions need to be taken to turn the Subway as Profit making entity.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
Company takes water bowzers for the service area from private party nearly from 8-9 years. However, there were no written agreement between water bowser supplier and company regarding price changes, terms & conditions. And also Company purchased Litro gas from a private company since 2017 without any written agreement.	Noted. Company tried to purchase water from water board, but price per water bowser(7500 liters) was rupees 7,060.50 at that time while private water supplier was supplying water bowser(14000 Liters) at Rs. 8,400 and he has continuously provided service to arcade. Further water board has informed that water supply cannot be ensure during the adverse weather condition. Canowin purchases gas cylinders from Litro since 2017 because Litro has been incorporated under the SLIC group (same Parent Company). Also, Litro was able to provide an uninterrupted supply of gas cylinders even during the gas shortage occurred during the 2022. Further, Litro offers the lowest prices in the market comparing to other suppliers (Laugfs Gas).	Written agreement should be signed entering necessary terms and conditions.

3.3 Idle or underutilized Property, Plant and Equipment

	Audit Issue	Management Comment	Recommendation
(a)	6 shops were vacated as at 31 July 2023 out of 50 shops in both side A & B of Walipanna Service area.	Noted. Out of 06 shops, 3 shops have been leased with effect from 01 st of August 2023 and legal actions are being taken to cancel the existing lease agreement with Wiraja Hi Vision. Once cancelation is done those two shops can be leased to tenants.	Necessary actions should be taken to leased out all the shops.
(b)	Administrative office, stores and VIP toilets are only located in upper floor area of “A” block. It was noted that considerably large area is unoccupied in that floor since a long time. Due to non-effective utilization of building space, they have lost the rental income they would have received.	Noted. Upper floor area was rented out for restaurants before 2018, however, tenants have left due to the less customer arrivals to the upper floor.	Necessary actions should be taken to effectively utilize the space available.

- (c) According to the inspection done by Audit on the 26 July 2023 it was observed that there were 5 ATM spaces were located in "A" block. But only 03 ATM are operated. Hence 02 ATM spaces are vacant as at the date of the Audit
- Noted. Company has requested People's bank and Bank of Ceylon (BOC) to install the ATM or CRM machine for vacant spaces. However People's bank verbally informed us, currently there are no new ATM or CRM machine in the country. BOC has informed that, the new CRM machines are highly sensitive to the heat and the uninterrupted air condition facility is essential in order to provide incessant service and to ensure the total life of the machine.
- Do -
- (d) It was observed that there were two LED panel located in service area in both side without operation. Any documents related to the LED panel situated in Welipenna service area were not submitted to the Audit. Further, as per the discussion with staff of the company, it was revealed that it was constructed by RDA after the leasing the land to the Company. However, the Company had failed to make arrangements to transfer such asset to the Company and to earn more profit by it
- Noted. The management of the Company discussed with RDA to resolve the problem. Then the Road Development Authority agreed to shift the LED panels to a land owned by Road Development Authority if there is an objection from the Company. As the Company declared their objection, Road Development Authority have requested the Company Chairman's permission to carry out a land survey for this LED panels shifting purpose and had granted. Eventually, both parties have agreed to proceed further actions immediately after doing the land survey by the Road Development Authority.
- Need to be come to a conclusion with the Road Development Authority.
- (e) At the Canowin Arcade (Service area) side A, it was observed that Waste Water Treatment Plant which had constructed and completed during the year 2015 had not been functioning and maintaining properly as at date of Audit. It was informed verbally by the Assistant Engineer of the company that oily waste water had not been treated well through this Plant and the sludge derived from the plant had not be removed. However, any update on the
- Noted. The Company has called for quotations for the service of the Waste Water Treatment Plant.
- Necessary actions should be taken to get functioning as per the requirement.

actions taken for correcting such malfunctions had not been presented to audit.

Further it was observed that sludge tank and the security point at this plant had been underutilized.

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| (f) | At the Canowin Arcade (Service area) side A, it was observed that there are only 2 water filters with 60,000 liters capacity per day and after filtering, water has been stored into water tanks. Even though there were 4 water tanks with 10,000 liters per each to store, only 3 tanks were utilized. However, average daily consumption was 150,000 liters as mentioned by the Assistant Engineer of the company. Therefore, the supply of treat water had not been adequate for the consumption of the service areas | Noted. Out of 04 tank, 03 tanks have been used to store the non-filtering water received from tube well and after filtering, water stores into another tank. Finally filtered water automatically pumps into water sumps. 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 (Side A 80000, Side B 70000), but nearly 35000 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. | Try to minimize cost on water while providing required service to the tenants. |
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3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) Even though a Procurement plan had been presented to Audit, the approval of the Board of Directors had not been presented as at date of Audit.	Noted. We will take the approval of Board of Directors for Procurement Plan in future.	The approval should be taken for the procurement plan of the Company.
(b) A master procurement plan had not been prepared in accordance with the paragraph 4.2.1 of the procurement guidelines.	Noted. Procurement plan will be prepared including procurement of services and works, hereafter.	The management should comply with the requirement of the procurement guidelines.
(c) As per the 6.3.3 (b) of the Government Procurement Guidelines, the company had	Necessary actions will be taken to make the bid openings according	- Do -

failed to open the bids received soon after the closing of bids in the presence of the bidders or their representative/s who wish to attend. to the 6.3.3 (b) of the GPG hereafter.

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| (d) | Bid opening minutes had not been maintained as per the given format for Bid opening minutes in 6.3.6 of Procurement Manual | Measures will be taken to maintain the bid opening minutes as per the format given in 6.3.6 of procurement manual. | - Do - |
| (e) | The Company had not been used standard bidding documents for its procurement. Further, as per the Invitation for bidders sent by the company, the delivery period, bid validity period, late delivery charges and credit terms for relevant procurements had not been mentioned. | The mentioned details will be incorporated into the procurement process as necessary. | - Do - |

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Although there is a recruitment policy for the company, it was observed that approval for that had not been taken from the board of directors even 25 August 2023.	Noted. The recruitment policy was forwarded to the Audit Committee on 30th of March 2023 for further comments and review as per instructions. The recruitment policy and the skill matrix (job specifications) to be amended for obtaining approval from the Audit Committee. The policy will be forwarded to the respective Board of Directors to obtain approval, offer receiving Audit Committee Approval.	The approval should be taken for the Recruitment policy of the Company.
(b) There was not available approval for the job description for each employees of the company for 11 categories. Further, Job description of 4 employees had not been presented to the audit as at 24 th august 2023.	Noted. The Job Descriptions to be approved along with the recruitment policy and the skill matrix.	- Do -

4 Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
Corporate plan had not been prepared by the company as at the date of Audit.	The management has decided to outsource the corporate planning function but still in the process of finding a qualified service provider to fulfill this requirement.	The corporate plan should be prepared and implemented to achieve its strategic objectives.

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal audit had not been carried out for the year under review.	Internal audit functions of Canowin Hotel and Spas (Pvt) Ltd have been handed over to the auditing staff of Sri Lanka Insurance Cooperation.	Internal Audit functions should be carried out.