

Transaction Report of the Hotels Colombo (1963) Limited - 2021, 2022 and 2023.

The audit of operating activities of the Hotels Colombo (1963) Limited (the “Hotel”) for the year ended 31 December 2021, 2022 and 2023 were 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 as per provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.1 Responsibilities of Management and Those Charge with Governance for the Financial Statements

As per sub section 16(1) of the National Audit Act No.19 of 2018, the company is required to maintain proper books and records of its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the entity.

According to the sub section 16(2) of the said Act, the annual financial statements in respect of each audited entity, should be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports within such period as may be prescribed by rules.

In terms of sub section 38 (1) (d) of the said Act, the Chief Accounting Officer should ensure the timely preparation and submission of annual reports and other financial statements and in addition Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the entity.

1.2 Financial Statements

1.2.1 Internal Control over the preparation of financial statements

Audit Observation	Management Comment	Recommendation
<p>As per the Section 150 (I) - “obligation to prepare financial statements” of the Companies Act, No. 07 of 2007, the board of every company shall ensure that within six months or within such extended period as may be determined by the Registrar after the balance sheet date of the company, financial statements that comply with the requirements of section 151 are-</p> <p>(a) completed in relation to the company and that balance sheet date;</p> <p>(b) certified by the person responsible for the preparation of the financial statements that it is in compliance with the requirements of this Act; and</p> <p>(c) dated and signed on behalf of the board by two directors of the company or if the company has only one director, by that director.</p> <p>Further, as per Section (2) of the aforesaid Section,</p>	<ul style="list-style-type: none">• Agree with the observation.• The lack of skilled personnel, high staff turnover among top executives, CEOs and competent accounts department staff has led to this status. However, with the recent changes in management, we have taken decisive steps to address this issue.• We have already commenced to finalize all outstanding audits and target to complete 2021, 2022 and 2023 by Dec2024. We have also targeted to finalize the audit of 2024, by March	<p>Need to adhere with rules and regulations.</p>

where the board fails to comply with the requirements specified in Subsection (1), every director of the company who is in default shall be guilty of an offence and be liable on conviction to a fine not exceeding one hundred thousand rupees. 31, 2025.

Accordingly significant delays were identified in relation to the preparation of Financial Statements by the hotel for the years of 2021, 2022 and 2023 and those Financial Statements had not been prepared even up to the date of audit on 31 May 2024. The latest five years status of financial statements submission is as follows;

Financial Year	Financial Statement Submission Date
2019	06 September 2021
2020	03 May 2023
2021	
2022	Not submitted up to 31
2023	May 2024

1.2.2 Accounting Deficiencies

Audit Observation

- (i) Following differences were identified between the opening balance carried forward to 01 January 2021 in the General Ledger in the IDS system and the balances appeared in the audited Financial Statements for the year 2020 in relation to several fixed assets categories.

Assets Class	Balance as per audited Financial Statements	Cost (Rs.) System Balance	Difference	Balance as per audited Financial Statements	Depreciation (Rs.) System Balance	Difference
Air Conditioning Plant	No Difference			23,392,667	31,774,923	(8,382,256)
Furniture & Fittings	32,952,389	32,943,388	9,001	No Difference		
Crockery & Cutlery	No Difference			5,385,129	5,439,437	(54,308)
Kitchen Equipment	No Difference			7,196,530	7,179,025	17,505
Plants				15,980,058	15,754,866	225,192

Management Comment

Air Condition Plant.
Upon review, it appears that both the debit and credit balances for the Air Conditioning Equipment accounts have been reckoned as credit balances, in computing the depreciation.

Furniture and Fittings.
During our recent review, we discovered a discrepancy regarding the classification of the travel counter asset, valued at LKR 9,000 categorized under plant and machinery for depreciation purposes.

Plant & Machinery:
The audited financial balance as of December

Recommendation

Not yet finalized the audit of year 2021 by private auditor. Need to do adjustment in the 2021 financial statements.

and Machine ry Linen	No Difference						
		16,325,197	16,158,223	166,974	16,315,377	16,369,760	(54,383)
Comput er System Electron ic Equipm ent	No Difference	13,648,527	13,815,501	(166,974)	13,186,539	13,095,353	91,186
					9,656,997	9,873,189	(216,192)

31, 2020, is LKR 15,980,058 while the system balance is LKR 15,754,866. The discrepancy of LKR 225,192 which represents under-recorded depreciation, is reflected as over-depreciation in the Electronic Equipment assets.

Electronic Equipment:

The audited financial balance is LKR 9,656,997 compared to a system balance of LKR 9,873,189 resulting in an excess depreciation of LKR 216,192. This difference impacts the depreciation recorded under Plant & Machinery.

Travel Counter Asset: A value of LKR 9,000 originally classified under furniture and fittings, was incorrectly depreciated under plant and machinery.

Kitchen Equipment and Computer System/ Crockery & Cutlery and Linen Assets

Identified several discrepancies in the recorded depreciation balances that need to be addressed:

1. Kitchen Equipment and Computer System: The depreciation for these assets has been recorded as underestimated when compared to the audited financial balances and system balances.

2. Crockery & Cutlery and Linen Assets: Depreciation for these assets has been recorded as overestimated. This over-estimation reflects the differences observed

in the depreciation of Kitchen Equipment and Computer Systems.

Linen and Computer System.

We identified LKR 166,974.23 which pertains to linen assets, has been incorrectly recorded under Computer System assets in the system balances.

- However, in the ongoing financial audit of the year 2021 we already adjusted above identified changes and made relevant corrections on said ledger accounts.

(ii) As per the IDS system following assets classes have been depreciated over its cost as at 01 January 2020.

Description	Cost (Rs.)	Accumulated Depreciation (Rs.)	Over Depreciation (Rs.)
Television	4,043,466	4,234,204	(190,738)
Linen	16,158,223	16,369,760	(211,537)
Computer Equipment	9,264,565	10,550,856	(1,286,291)

Agree with the observation. We will rectify this matter as a priority and will implement measures to ensure the Fixed Asset Register is updated regularly, including proper labeling, records asset locations and custodians.

Need to do corrections.

(iii) The hotel has not maintained an updated Fixes Asset Register after 31 March 2021, and the items purchased were not labeled with the assigned property asset number. Further the hotel has not maintained the details relating to the Asset Location and Assigned Custodian in their Fixed Asset Register.

Agree with the observation. We will rectify this matter as a priority and will implement measures to ensure the Fixed Asset Register is updated regularly, including proper labeling, records asset locations and custodians.

Need to maintain an updated Fixed Assets Register.

1.2.3 Unreconciled Accounts

Audit Observation

Management Comment

Recommendation

(i) Debtor Control account has not tally with the debtor aging analysis as at 31 December 2021, 2022 and 2023. Details are as follows.

- Agreed with the observation. We have identified a discrepancy of LKR 1,669,913 which originated from the year 2017

Need to prepare reconciliation.

Period	Trade Debtors Balance as per Trial Balance (Rs.)	Debtors Balance as per analysis (Rs.)	aging Difference
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			(Rs.)
2021	20,934,479	22,604,392	1,669,913
2022	99,655,112	103,218,098	3,562,986
2023	165,697,351	170,400,134	4,702,783

and has subsequently impacted the financial records for the years 2022 and 2023.

We plan to address this discrepancy once the audits for the years 2022 and 2023 are conducted. Upon completion of these audits, we will reconcile the aforementioned differences.

(ii) The hotel had not prepared Bank reconciliation through IDS system from January 2017. However, the manual reconciliation has been prepared up to 2022 and following observations were made;

Differences of Rs.26,533 and Rs. 16,751 were observed in Bank statement balances and the Bank balance as per bank Reconciliation Statements of the year 2021 and 2022 respectively relating to Bank Account number 472. Further bank reconciliations for the year 2023 were not prepared for the Bank Account numbers of 8579 and 472.

Need to follow correct reconciliation process.

a. i) Bank Account No: 8579

Following unusual outstanding balances were shown in the bank reconciliations prepared on manual basis;

- Amount of Rs.1,934,258 related to 26 number of chques which were not presented to the bank as at 31 December 2022.
- Amount of Rs.1,051,443 related to 17 number of unidentified deposits which were recorded as at 31 December 2022.
- Amount of Rs.4,923,940 related to 22 number of unidentified payments which were recorded as at 31 December 2022.

Now the bank reconciliation up to 31st Dec 2021 is balanced and no difference exists.

Need to clear unusual balances.

(ii) Bank Account No: 472

- Amount of Rs.11,198 and Rs.77,452 related to Deposit in transit were recorded for the year 2021 and 2020 respectively as at 31 December 2022.
- Amount of Rs.229,235, Rs.74,599 and Rs.347,031 related to unidentified deposits were recorded respectively for the year 2020, 2021 and 2022.

These items are not appearing in the reconciliation as it is balanced now.

- Amount of Rs.31,000 and Rs.30,000 related to unidentified payments were recorded for 2021 and 2022 respectively.
- Amount of Rs.218,725 was recorded in 2020 as reconciliation balance adjustments on which the hotel was unable to give valid explanation.

1.2.4 Unauthorized Transactions

1.2.5

Audit Observation	Management Comment	Recommendation				
<p>(i) Leave Encashment ----- According to the IDS Hotel Management System, Rs.558,895, 650,566, Rs.71,163, Rs.671,163 and Rs.40,400 paid as leave encashment from 2020 to 2023 respectively.</p> <p>The hotel had not followed unique basis for leave encashment and applied different basis in time to time.</p> <p>In 2017 the board had granted approval via Board Minute No: 4471/643/2017 for leave balance encashment of a particular staff member up to 100 days though the approval was sought for 121.5 days. However, 100 days considered for leave encashment cannot be verified by the audit due to absence of proper record keeping of leave particulars. The had paid Rs. 578,350 for 03 officers in 2020 and 2021 for 267 days for leave balances as leave encashment exceeding the approved limit.</p> <p>Although the board had granted approval to carry forward maximum of 07 days to the following years from previous years as per the aforesaid board approval, the hotel had considered brought forward leaves of Chief Accountant more than 07 days from 2018 to 2023 and claimed for 196.5 days lieu leaves. The leave balances carried forwarded were as follows.</p>	<p>The ledger balances currently reflect the earned leave entitlements of employees based on their service and workmanship. Upon an employee's departure, they have the option to either:</p> <ol style="list-style-type: none"> 1. Utilize their accrued leave days before leaving, or 2. Receive a payment for the balance of their unused leave days. <ul style="list-style-type: none"> • The ledger balances, therefore, indicate the amounts related to such leave encashment, demonstrating the leave entitlements that employees can either take as days off or convert into monetary compensation. We agree with the observation. • There does not appear to have a proper approved policy over leave encashment of senior executives during this period for the hotel. The leave encashment has been carried out based on so called practices said to have prevailed previously citing various leave encasements took place before. There does not appear to have any common policy where such a policy was approved, but harping on Mr. Gamini Silva's case as an example. Carrying forward the balance leave beyond 07 days (board has approved up to 7 days) too is based on a practice adopted by the executive on their own. Furthermore, the officer accrued one additional leave day for each duty manager shift worked from 5 PM to 8 AM the following day. (It is also not clear where this practice has 	<p>Need to follow formal policy. Use of different signatures cannot be justified.</p>				
<table border="1"> <thead> <tr> <th data-bbox="194 1848 287 1881">Year</th> <th data-bbox="287 1848 718 1881">Number of leaves forwarded from previous years</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> </tr> </tbody> </table>	Year	Number of leaves forwarded from previous years				
Year	Number of leaves forwarded from previous years					

	Annual Leave	Lieu Leave
2020	10	60
2021	24	174.5
2022	Leave card not presented for Audit	
2023	14	32

Furthermore, significant difference was observed between the signature of the General Manager placed on bank payment voucher and balance leave calculation sheet.

stemmed from, either due to labour laws or unapproved company practice) These accrued leave days are also incorporated within the aforementioned balances. So, it is not possible for us to arrive at a conclusion or justify this matter as whole of leave encashment regime has been grey. However, Mr. Dinusha Sulakshana's encashment has been carried out under a foot note by a then Director MS Priyadarshani (quote) based on the discussion of the board of Directors on 08th Dec 2021 (but erroneously mentioned as 2022) and considering the previous board approval given for the same kind of payment (unquote). It is pertinent to mention here that this period being under COVID, leave record maintaining etc. has been very poor. Mr. Sulakshana's leave records however are available and HR department has also issued him a confirmation of his leave records.

We would like to clarify that according to the signature practice of the former General Manager, Mr. Lalin Adhikari he has customarily utilized two distinct signatures. As per standard practice, he used his abbreviated signature on payment vouchers and other exclusive internal documents, but other outgoing documents such as cheques, letters etc possess the full signature.

- (ii) The hotel had paid Rs.150,000 as a consultancy fee to Audit Firm for completion of Accounts for the year 2020/2021, without any prior approval from the board. Furthermore, it was observed that the following agreed works have not been completed by the firm as at the date of payment 14 June 2024 and the financial statement for the year 2020/2021 were not submitted for the audit even up to the date of audit of 31 July 2024.
- Verification of the each individual

Although we gave the above scope to M/S Prasanga Perera & Co for their assignment our whole intention was to get their support as much as possible to prepare pre requisites for the final Audit as our accounts department, staff position was depleted at that time and the limited staff available too had to run the day-to-day operations as well whilst preparing prerequisites for the final audit. In spite of their not adhering to the specific scope as above, they prepared

Should follow up agreed works with work done prior to release money in order to get done of scope of works.

- balance of Debtors with aging as at 31 December 2021.
- Bank Reconciliations as at 31 December 2021
 - Petty cash reconciliation
 - Guest refund ledger
 - Impairment calculation
 - Advance and payment ledger
 - Differed tax calculation
 - Right of use assets
- important prerequisites, which cropped up intermittently in preparing prerequisites. We are anyway happy about their contribution as value for money. Furthermore, the payment authority level up to an expense amounting to Rs 250,000 lies with the CEO, as approved by the board, we did not need specific approval from the board in this regard. But as a matter of prudence, we have made the audit committee aware about assignment and got their approval.

1.2.6 Accounts with unusual balances.

Audit Observation				Management Comment	Recommendation
Following ledger accounts with unusual balances were identified as at 31 December 2023.				L2924 - This provision made for Breakages payment for staff.	Need to analyze root causes for these balances and correct accordingly.
GL Code	Leger Account	Debit /(Credit) Balance		<u>L2934/</u> <u>G3000/</u> <u>O2144/</u> <u>L2150/</u> <u>L2146/</u> <u>L2125/</u> <u>L2947/</u> <u>A1060/</u> <u>A1210/</u> <u>A1016/</u> <u>A1202/</u> <u>A1017/</u> <u>A1750</u> - These balances will be reconciled upon the completion of the audits for the financial years 2021/2022 and 2023. We anticipate that the finalization of these audits will provide clarity and allow for the resolution of the identified discrepancies.	
L2924	Provision for Breakages	1,686,083			
L2934	Unpaid Services Charge	811,604			
G3000	Round Off	1,823,640			
O2144	Cash Over and Short	364,838			
L2150	Accrued Audit Fees	412,563			
L2146	Accrued Credit Card Commission	8,635			
L2125	Accrued Indoor Plant Service (C/L)	56,775			
L2947	Accrued News Papers & Periodicals	80,420			
A1060	Cash Clearance	201,736,889			
A1210	City Ledger	165,697,351			
A1016	Foreign Currency Encashment Float	1,819,702			
A1202	Guest Refund	(171,775)			
A1017	Petty Cash Float 2012	(82,545,271)			
A1750	Prepaid Salaries & Wages	12,000			
A1900	Right Of Use Assets	89,910,077			
L2201	Accrued Secretarial Fee	9,745			
L2013	Death Society Fees Payable	39,050			
L2938	Esc Payable (C/L)	788,795			
L2952	Income Tax Payable	127,464			
L2036	Personal Income Tax	(47,320)			
				A1900 - In accordance with International Financial Reporting Standards (IFRS), specifically IFRS 16 - Leases, the Right of Use Assets ledger is correctly utilized to account for lease agreements. Under IFRS 16, entities are required to recognize a Right of Use asset and a corresponding lease liability on the balance sheet for leases. The	

L2012	Salary Control	563,897	inclusion of the GOH building rent in the ROU Assets ledger aligns with this standard, as it represents the right to use the leased building over the lease term. This treatment ensures that the financial statements accurately reflect the hotel's obligations and the value derived from the lease, in compliance with IFRS requirements. The GOH building rent and its corresponding ROU asset have been reported in the financial statements as per the IFRS guidelines, providing transparency and accurate representation of the lease transactions. <u>L2201/ L2013/ L2938/ L2952/ L2036/ L2012/ L2935/ SUC01</u> - These balances will be reconciled upon the completion of the audits for the financial years 2021/2022 and 2023. We anticipate that the finalization of these audits will provide clarity and allow for the resolution of the identified discrepancies <u>L2934</u> - No comment
L2935	Stamp Duty Payable	1,450,375	
SUC01	Suspense Creditors	(3,792,452)	
L2934	Unpaid Service Charge	811,604	

1.2.7 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
<p>There is a significant doubt about the going concern of the entity though it's ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations due to the facts set out below may hinder the going concern assumption of the hotel.</p> <ul style="list-style-type: none"> Net liability or net current liability position 	<p>Agree with the observation and we are at present taking action to negate these factors and run the hotel as a going concern yet again.</p>	<p>Management should take prompt actions.</p>

- 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

1.2.8 Documentary Evidences not made available for Audit

Audit Observation	Management Comment	Recommendation
(i) As per the information made available, it was observed that the hotel had purchased foods from outdoor catering services during the year 2023 while salaries and other payments were made for kitchen staff. However, the hotel has not provided any vouchers, third party bills or ledger breakups regarding outdoor catering expenses for the years of 2021, 2022 and 2023 for audit review purpose.	<ul style="list-style-type: none"> • The outdoor catering project commenced in August 2023 with the approval of top management and continued until December 2023. This initiative was implemented in response to the significant financial challenges faced by the hotel due to non-settlement of creditors, thereby disrupting the supply chain to buy the supplies and raw materials to prepare in house food. • The project was a strategic measure to mitigate the impact of these financial difficulties and to address the issues arising from the suppliers' inability to provide necessary materials. This practice was immediately stopped when the new management took over in Jan 2024. No such outdoor catering took place during the years 2021, 2022 and 2023(before August). 	Should revisit on these transactions in detail with documents (Vouchers, invoices etc..) and take prompt actions if hotel had incurred loss.

- (ii) The hotel had provided laundry service to Waters Edge Hotel at concessionary rates during the years of 2021, 2022 and 2023 without considering its cost of services and without having proper approval from the board. However, the hotel has not provided any information regarding the cost incurred for the aforesaid service, and income generated from the service for audit review purpose.
- With the inclusion of Selandiva Ltd to manage the hotel they obtained the services of the part of the management team of Waters Edge to manage the hotel which led the hotel become a virtual subsidy of Waters Edge. At that time the prices of laundry were fixed and continued till recently as some of the top team seconded from the Waters Edge continued working here. Therefore, we cannot disagree with the Audit observation. But that practice is no more and we have revised the prices to match the cost.
- The hotel should revisit on the decision made and take prompt action to recover any losses from relevant parties if happened.

1.3 Accounts Receivable and Payable

1.3.1 Receivables

Audit Observation

- (i) The long outstanding debtor's balances are remaining as unsettled with increasing trend when comparing with last three years period. However, the hotel has not taken satisfactory level of actions to recover those outstanding debtor balances up to now.

Rs.000'

Period	As at 31.12.2023	As at 31.12.2022	As at 31.12.2021	As at 31.12.2020
	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Below 30 days	16,778	19,599	7,833	5,548
Over 30 Days	12,385	9,565	7,801	225
Over 60 days	10,789	10,131	3,643	171
Over 90 days	35,885	23,985	5,620	158
Over 180 days	364,659	450,022	372,089	2,355
Total Debtors	640,496	513,303	407,986	16,457

Management Comment

• It appears that auditors have picked the total debit balance separately which is total no of items, whereas credit total also appear separately equal to the same amount. Therefore, the debtor figure which includes the debit column total of City ledger credit card A/C too. We have erroneously passed an entry En-block for the full amount instead of individual credit card amounts in which case it could have automatically cancelled. We are now reconciling the city ledger credit card A/C to complete the reconciliation of this a/c and soon intends to pass individual entries.

Recommendation

Need to take prompt action to reconcile and recover remaining balances. Further need to take prompt actions to prevent repetition.

- (ii) It was further observed that there are unusual balances (negative or credit) included in the aforesaid trade receivable balances for the years of 2021, 2022 and 2023. However these, negative balances are remaining in over long period of the time and the hotel had not taken necessary actions to analyze the root causes and to take remedial actions on such balances. The valid reasons for these ledger balances were not given to the audit.
- We acknowledge the concerns regarding the persistence of negative and credit balances across the years 2021, 2022, and 2023, and we understand the implications these discrepancies have on the reliability of our accounting records.
 - We have reviewed the list of unusual balances provided and are taking the following steps to address the issue:
 - Detailed Investigation
 - Root Cause Analysis
 - Remedial Actions
 - Review and Monitoring
- Need to analyze root causes and take prompt actions to prevent repetition.
- (iii) Although a sample of 40 Debtors balance confirmations had been sent, only one company had confirmed that “*there are no outstanding balances owed to Grand Oriental Hotel (Hotels Colombo 1963 Ltd.) as of December 31, 2023*”. The accuracy and existence of these debtors balances cannot be verified through further audit examinations since these balances were no moved from long period.
- Noted the audit observation. We will anyway try as much as possible to meet the other debtors and verify, the correctness before we complete the 2022 audit.
- Need to follow up.

- (iv) Significant differences in debtors’ balances between the debtors’ reports presented to the Board of Directors by the finance department and debtor’s balance as per the IDS system was observed. Details are as follows.
- These differences arise from manual adjustments made to unsettled credit balances and bad debts before presenting the aging reports to the Board.
- Need to adjust manual entries to the system on timely manner.

Date	Total Debtors as		Difference
	per Board Paper (Rs.)	per IDS system (Rs.)	
20 March 2023	13,871,169	119,220,087	105,348,917
04 June 2023	17,566,591	138,932,546	121,365,954
20 September 2023	18,296,233	139,692,859	121,396,625

1.3.2 Payables

Audit Observation	Management Comment	Recommendation																																
<p>(i) As per the details provided, the long outstanding creditor balances remained without settling is as follows; <i>Rs.000'</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Period</th> <th style="text-align: right;">As at 31.12.2023</th> <th style="text-align: right;">As at 31.12.2022</th> <th style="text-align: right;">As at 31.12.2021</th> </tr> </thead> <tbody> <tr> <td>Below 30 days</td> <td style="text-align: right;">5,801</td> <td style="text-align: right;">5,108</td> <td style="text-align: right;">7,327</td> </tr> <tr> <td>Over 30 Days</td> <td style="text-align: right;">4,467</td> <td style="text-align: right;">8,349</td> <td style="text-align: right;">2,487</td> </tr> <tr> <td>Over 60 days</td> <td style="text-align: right;">5,080</td> <td style="text-align: right;">11,244</td> <td style="text-align: right;">3,719</td> </tr> <tr> <td>Over 90 days</td> <td style="text-align: right;">6,805</td> <td style="text-align: right;">13,225</td> <td style="text-align: right;">3,762</td> </tr> <tr> <td>Over 180 days</td> <td style="text-align: right;">75,247</td> <td style="text-align: right;">35,499</td> <td style="text-align: right;">17,194</td> </tr> <tr> <td>Total Debtors</td> <td style="text-align: right;">97,400</td> <td style="text-align: right;">73,426</td> <td style="text-align: right;">34,489</td> </tr> <tr> <td>Unadjusted debit balance</td> <td style="text-align: right;">16,552</td> <td style="text-align: right;">12,247</td> <td style="text-align: right;">7,671</td> </tr> </tbody> </table> <p>It was further observed that these balances include unusual (debit) balances too.</p>	Period	As at 31.12.2023	As at 31.12.2022	As at 31.12.2021	Below 30 days	5,801	5,108	7,327	Over 30 Days	4,467	8,349	2,487	Over 60 days	5,080	11,244	3,719	Over 90 days	6,805	13,225	3,762	Over 180 days	75,247	35,499	17,194	Total Debtors	97,400	73,426	34,489	Unadjusted debit balance	16,552	12,247	7,671	<ul style="list-style-type: none"> • We acknowledge the significant outstanding. • Additionally, unadjusted debit balances total Rs. 16,552,000, reflecting payments received but not yet matched with individual bills. • We have identified that over 60% of these outstanding balances are related to a sub ledger called Cash Purchase, which operates under the trade creditor control account. The delays are primarily due to the unsettled petty cash ledger, which we are addressing. We anticipate that these balances will be resolved once the financial audits for 2022 and 2023 are finalized. • The hotel has also faced significant cash flow issues, contributing to accumulated supplier outstanding balances since 2019. We are actively working to resolve these issues and will take necessary steps to ensure that the balances are accurately settled. 	<p>Balances need to be state accurately and clear loan outstanding.</p>
Period	As at 31.12.2023	As at 31.12.2022	As at 31.12.2021																															
Below 30 days	5,801	5,108	7,327																															
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<p>(ii) None of creditors balance confirmations was received out of 24</p>	<p>Noted the audit</p>	<p>Need to follow up.</p>																																

numbers of selected customers from the trade creditors as at 31 December 2023. The accuracy and existence of such balances are in doubtful.

observation we will anyway try as much as possible to meet the creditors and verify, the correctness before we complete the 2022 audit.

(iii) An unusual purchase pattern was identified from a selected supplier for the period of January 2022 to December 2023 as follows.

Period	Purchases (Rs.)	Payment (Rs.)
January 2022 to December 2022	,089,599.80	11,486,512.40
January 2023 to December 2023	8,555,869.60	14,158,957.00
January 2024 to April 2024	708,182.00	708,182.00

It was observed that there are unusual purchases and payments had been taken place during the years of 2022 and 2023. When comparing the purchases made during the 4 months period of 2024 with purchases made in 2022 and 2023 are abnormal though there is a downturn of the industry due to the COVID 19 and economic downturn situation.

The trustworthiness and the realistic of these purchases and the payments on that are questionable. Though, the chief accountant of the hotel has stated that all purchases are doing on cash basis as a practice, it was observed that payments aggregating to Rs.5,254,698 were made in December 2023 through chques payments and appeared in bank reconciliation as “not presented chques” up to 05 June 2024 without handing over to the relevant suppliers. Thereafter, amount of those chques were again credited to the suppliers account since the validity period has been expired. This Company is the major supplier of the hotel and transactions done in high value with unusual pattern which is in suspicious nature.

• It is not possible to compare the purchases going by the absolute price year by year. Amount paid for purchases depends on economic conditions at that time highly fluctuated fish prices, sales done by the hotel etc. Therefore, comparing the absolute price does not appear to be a good norm.

Need to be deeply analyze the significant transaction had with supplier since relevant transactions were in unusual pattern compared to year 2024 which evidenced by increasing trend of inflation and sales. contradict to the management comment.

•Due to previous discussions with the management and Dora Sea Food, it was agreed that we would issue cheques for all outstanding dues, some of which had been overdue for more than a year. The supplier had agreed to deposit these cheques incrementally, in coordination with our hotel.

•However, following a change in management, this plan was not executed as intended, and the cheques expired. We are now not buying from this supplier and have now negotiated with the supplier and agreed to make payments as and when we have a cash flow.

1.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations etc.	Non compliance	Management Comment	Recommendation
(i) Section 133 of the Companies Act, No 07 of 2007	<p>As per the Section,</p> <p>i. The board of a company shall call an annual general meeting of shareholders to be held once in each calendar year.</p> <p>a. not later than six months after the balance sheet date of the company; and</p> <p>b. Not later than fifteen months after the previous annual general meeting.</p> <p>ii. Where default is made in holding a meeting of the company in accordance with the provisions of subsection (1)</p> <p>a. The company shall be guilty of an offence and be liable on conviction to a fine not exceeding one hundred thousand rupees ; and</p> <p>b. Every officer of the company who is in default shall be guilty of an offence, and be liable on conviction to a fine not exceeding fifty thousand rupees.</p> <p>However, the hotel has not called the Annual General Meeting for the years of 2021, 2022 and 2023 since financial statements have not been finalized for those years.</p>	<ul style="list-style-type: none"> Agreed with the Audit Observation. We acknowledge the non-compliance with Section 133 of the Companies Act, which mandates the holding of Annual General Meetings (AGMs) within specified timeframes. The hotel has not convened AGMs for the years 2021, 2022, and 2023 due to delays in finalizing the financial statements for these periods. <p>Actions Taken:</p> <ol style="list-style-type: none"> Financial Statement Finalization AGM Scheduling Internal Controls <ul style="list-style-type: none"> We understand the importance of adhering to legal requirements and are taking all necessary steps to rectify this situation promptly 	Need to be adhered with relevant Laws, Rules and Regulations.
(ii) Section 147 of the Companies Act, No 07 of 2007	<p>As per the Section,</p> <p>i. Every company shall cause minutes of all proceedings of general meetings and meetings of its directors to be entered in books kept for that purpose.</p> <p>ii. Any such minutes purporting to be signed by the chairman of the</p>	<p>Agree with the Audit Observation. We will trace the Board minutes and/or reconstruct the minutes as soon as possible on the aforesaid board meetings. We will also coordinate with the secretaries for preventing repetition in</p>	Need to be adhered with relevant Laws, Rules and Regulations.

meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, shall be evidence of such proceedings. future.

iii. Where a company fails to comply with the provisions of subsection

a. The company shall be guilty of an offence and be liable on conviction to a fine not exceeding one hundred thousand rupees; and:

b. Every officer of the company who is in default shall be guilty of an offence and be liable on conviction to a fine not exceeding fifty thousand rupees.

1. However, the hotel has not maintained proper records as requested by the above sub section (i) for meeting Minutes No: 673,674,676,679,680 and 681. Those minutes have not been provided for review of audit.

2. Further, the Secretary to the Board has not submitted the following Board meeting minutes to the board as requested by the above section (ii). Details are as follows.

Minute No	Date
673	14 June 2023
674	13 July 2023
675	11 October 2023
676	30 November 2023

(iii) Section of 48(3) and 48(4) of Tourism Act No 38 of 2005

Every Tourist Enterprise and Tourist Service falling within the classification made in terms of subsection (1) shall be registered with the Authority and a license shall be issued in the name of such Enterprise or Service by the Authority, according to the different classifications. However, the prevailing Tourist Board License of the hotel had expired on 31 December 2020 and not

- Agree with the Audit Observation. Need to be adhered with relevant Laws, Rules, and Regulation.
- The Tourist Board License is held up due to non-submission of Audited Accounts to them.
- Liquor License is held up due to non-availability of Tourist

renewed up to the date of this report.

Board License.

- Action is underway to submit requirements (Audited accounts) and obtain the license from both agencies.

(iv) Section 25 of the Excise Ordinance (Chapter 52)	The liquor license of the hotel has not been renewed after 31 December 2022 and obtained temporary license for the period from 01 January 2024 to 30 June 2024 to run the business. However, the hotel has generated Rs.19,793,426 income from the sale of liquor for the year 2023 without obtaining the liquor license.	Agree with the Audit Observation. Matter already explained.	Need to be adhered with relevant Laws, Rules and Regulations.
(v) Section 16 (1) Employees' Trust Fund Act No. 46 of 1980	As per the Section, the employer of every employee to whom this Act applies shall, in respect of each month during which such employee is employed by such employer, be liable to pay in respect of such employee, to the Fund, on or before the last day of the succeeding month, a contribution of an amount equal to three per centum of the total earnings of such employee from his employment under such employer during that month. However, the hotel had paid the ETF contributions with significant delays for the period from January 2021 to December 2023.	Agree with the Audit observation. All ETF payments are now up to 25 date including for the current month.	Need to be adhered with relevant Laws, Rules and Regulations.
(vi) Section 10 (2) of Employees' Provident Fund Act No. 15 of 1958	As per the Section, the employer of every employee to whom this act applies and who is liable to pay contributions to the fund shall, in respect of each month during which such employee is in a covered employment under such employer, be liable to pay to the fund on or before the last day of the succeeding month, a contribution of an amount equal to twelve per centum of such employee's total earnings from the last month. However, it was observed that the hotel had not paid the contributions on time	<ul style="list-style-type: none">• Agree with the Audit observation. All MSPS (EPF equivalent) payments are now up to date including for the current month.• It is pertinent to mention here that hotel has to dispatch the full amount equivalent to MSPS (i.e 15% from the hotel and 10% from the employee) Audit team in their computation appears to	Need to be adhered with relevant Laws, Rules and Regulations.

and there were significant difference between the payable amount and actual paid amount for the period from January 2021 to December 2023.

have erroneously reckoned only the hotel contribution sans the employee contribution, which leads to the difference in their computation

(vii) Section 16 of Employees' Provident Fund Act No. 15 of 1958

As per the section, where contributions payable under this Act in respect of any month have not been made to the Fund before the last day of the succeeding month and the employer is unable to explain to the satisfaction of the Commissioner that the failure to pay such contributions was due to circumstances beyond his control, he shall be liable to pay to the Fund, in addition to the amount of the contributions due, a surcharge on such amount calculated.

It was observed that an amount of Rs.3,153,882 due from the employee under Section 10 (1) of the Act and the amount of Rs.4,730,823 due from employer under Section 10 (2) of the Act had not been paid on time as per the letter from Assistant Labor Commissioner dated 29 December 2023. Thereby an amount of Rs. 2,225,662 have to be paid as surcharge due to the negligence of the management. Further it was observed that an amount of Rs.3,153,882 which was already deducted from the employees had not been paid as at the date of audit. This will result to surcharges on non- payment of contribution up to the present.

Agree with the Audit observation. All MSPS (EPF equivalent) payments are now up to date including for the current month.

Need to be adhered with relevant Laws, Rules and Regulations.

(viii) Section 3 of the Employees' Budget Relief Act No. 04 of 2016

Contrary to the Section, an amount of Rs. 5,111,909 of Budget relief allowances had been defaulted for the months of January 2018 to December 2018. The letter of Assistant Labor Commissioner bearing number CS/CO/B/1/271/16 dated 31 January 2024 directed the hotel to deposit the

We have already paid the BRA to the current employees and those who left and applied for same. Arrangements are also being made to pay any former employee who applies for same as we

Need to be adhered with relevant Laws, Rules and Regulations.

payment to the employees on or before 12 February 2024. Chief Executive Officer had asked a time extension for a period of 03 months up to 15 May 2024 through his letter dated 04 February 2024 to pay this amount due to the liquidity problems.

Although the Human Resource Manager by his letter dated 19 April 2024 confirmed that the payment of the amount to the employees working since 2018 had been completed, it was observed that all the employees including who are continuing their working since 2018 and who have left but entitled for such payment, had not been considered for the payment. Further, it was observed that necessary arrangements have not been taken to pay arrears amount for the employees who have worked since the year 2018 and left at present.

have no account details of others unless applied.

1.5 Cash Management Audit Observation

- (i) According to the General Ledger (GL) balances in IDS system, cash in hand for following periods indicates abnormal and high amount balance which is unable to accept as reliable. Details are as follows.

GL Code	GL Account (as at 05.06.2024)	31.12.2023	31.12.2022	31.12.2021
A1060	Cash Clearance	197,151,350	72,626,908	6,587,991
A1016	Foreign Currency Encashment Float	(2,614,695)	(652,970)	(281,581)
A1013	Petty Cash Float	193,621	147,621	147,621
A1017	Petty Cash Float - 2012	(82,545,271)	(35,280,087)	(8,431,513)
Total		112,185,004	36,841,472	(1,977,482)

Physical Cash Count

Petty cash float	214,240	1,255,555	288,630
Unsettled IOU	-	2,302,700	1,579,486
Foreign Currency Balance	-	434,245	11,198
Total Cash in Hand	214,240	3,992,500	1,869,314
Excess/ (Shortage)	(111,970,764)	(32,848,972)	3,846,796

According to the above figures negative cash in hand balance amounting to Rs.1.98 million recorded as at 31 December 2021.

Management Comment

- Agree with the observation. Need to finalize the outstanding balances.
- We have already commenced to finalize all outstanding audits and target to complete 2021, 2022 and 2023 by Dec2024. These gaps will be addressed when all audits are complete.

Recommendation

Moreover Rs.36.84 million and Rs.112.18 million physical cash in hand balances were recorded as at 31 December 2022 and 31 December 2023 respectively. However chief cashiers' cash in hand balances were Rs.1,590,684.50, Rs.3,992,499.70 and Rs.214,240 as at 31 December 2021,2022 and 2023 respectively as per the physical cash count reports done by the hotel. Accordingly significant differences were identified in the physical cash balance and the system cash balances which create doubt about the existence, accuracy and reliability of the recorded cash balance. Further, this may create doubt towards the misuse or mismanagement of the cash balance of the hotel.

- (ii) It was observed that following 78 numbers of various foreign currency receipts amounting to Rs. 1,515,871 raised during the period of 01 January 2020 to 23 December 2021 had not been deposited to the hotel's Current Account on the subsequent working day or days to the date of receipts. 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.
- Need to establish strong internal control over cash management.
- (iii) It was observed that following foreign currency receipts in 2019 had not been deposited to the hotel's Current Account up to 27 May 2024.
- | Receipt Date | Amount |
|--------------|---------|
| 21.05.2019 | USD 160 |
| 06.09.2019 | USD 177 |
| 07.09.2019 | USD 100 |
| 26.10.2019 | USD 100 |
- No comments
- Need to be carried out proper inquiry on responsible parties for recovery thereon.
- (iv) According to the hotel's cash and debt position it was observed that the hotel's fixed deposit balances were continuously reducing over the last years. It recorded as Rs.191 million in 2020 and gradually decreased into Rs.29 million in 2023 mainly because of withdrawal and use of those funds for daily operational expenses. Further balances of the Bank loan and overdraft facilities have been gradually increased over the last years from Rs.119 million in 2020 to Rs.253 million up to May 2024. Therefore it was observed that the working capital management of the hotel was at a weak level and may result to low profitability with operations.
- Agreed with the Audit observation. Reduced Fixed Deposit proceeds in 2020 were used to settle an electricity bill of Rs 70.0M to the bank, Rs 20 M to Selandiva and balance for interest and various expenses. A Loan of Rs 100 M was obtained in 2020 against FDs mentioned above which was set off against the FDs later after using for the
- Need to adhere proper working capital management.

expenses mentioned above. A loan of Rs 250 M was obtained in 2021. for renovation under Selandiva and released only up to Rs 175.0 M Further another loan of Rs 47.5M was obtained for working capital under Selandiva. Overdraft was increased due to working capital usage. In the meantime, asset base was increased due to renovations carried out.

1.6 Non-compliance with Tax Regulations

No	Reference to Laws, Rules, Regulations etc.	Non compliance	Management Comment	Recommendation
(i)	Section 126 (1) of Inland Revenue Act, No. 24 Of 2017	As per the Section, every person chargeable with income tax under this Act shall furnish to the Assistant Commissioner in accordance with subsection (2) a tax return in the specified form containing such particulars as may be specified by the Commissioner- General either in writing or by electronic means within the stipulated time. (on or before 30 November of each year) However the hotel has not submitted Income tax return for the Y/A 2020/2021, 2021/2022 and 2022/2023 up to the date of audit.	Agreed with the observation and we are in the process of rectifying these errors. The return for Y/A 2020/21 already submitted. Balance two will also be submitted within a week and tax too will be paid.	Need to be adhered with relevant Laws, Rules and Regulations.
(ii)	Section 2(4) of Surcharge Tax Act,	Contrary to the Section, hotel has not paid tax on due date and the hotel is Liable to pay Rs.4,049,046 as surcharge tax for the Y/A 2020/2021. However the	Agreed with the observation.	Need to settle dues as per the relevant Laws, Rules and

No.14 of 2022 hotel has not paid this tax up to the date of audit or seek any time extension for the payment as provided in Section 151 of the IRD Act. We will be in communication with IRD to settle these gradually. Regulations.

(iii) Section 25B of Value Added Tax (Amendment) Act, No. 7 of 2003. 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. However in following instances where the hotel had not submitted VAT return on stipulated time were identified. 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
2110	30.04.2021	05.08.2021
2120	31.07.2021	05.08.2021
2130	31.10.2021	27.12.2023
2140	31.01.2022	09.10.2023
2210	30.04.2022	10.10.2023
2220	31.07.2022	10.10.2023
2230	31.10.2022	06.10.2023
2240	31.01.2023	11.10.2023
2310	30.04.2023	18.10.2023
2320	31.07.2023	19.10.2023
2330	31.10.2023	
2340	31.01.2024	Not submitted
2410	30.04.2024	up to 14.06.2024

(iv) As per the assessment report issued by the Inland Revenue Department to the Hotel Colombo 1963 Ltd as at 30 September 2019, shows a VAT payable balance of Rs. 40,187,169. Details are as follows. Agreed with the observation. Need to settle these dues earliest.

Tax Period	Tax assessed as per IRD (Rs.)	Penalty as (Rs.)	Total Tax Liability (Rs.)	Tax Collection (Rs.)	Total payable (Rs.)
VAT					
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	5,493,721	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
Total	98,918,302	42,972,518	120,836,280	80,649,111	40,187,169

(v) The Hotel had not paid VAT for following periods;

Noted to Need to settle recheck about these dues earliest. these liabilities.

Tax Period	Tax Payable Amount (Rs.)
2220	1,179,839
2230	6,192,658
2240	7,883,909
2310	8,263,235
2320	7,910,771
Total	31,430.412

1.7 IT General Controls

Audit Observation	Management Comment	Recommendation
(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.	Need to develop documented guideline for user creations of IDS system.
(ii) The IT division has not maintained a record (Change Log) including the various changes that are newly added to the system by vendor.	We agree with the observation and will ensure that a comprehensive Change Log is implemented and maintained moving forward.	Need to maintain change log.
(iii) A genuine virus guard should be used to protect the data of the computer system. However, hotel's current virus guard has expired in the year 2021 and genuine virus guards have not been used for computers. Accordingly, the necessary measures have not been taken to update the virus guard for almost 03 years and there is a serious risk in the security of the data and information in the system.	A purchase order for a genuine virus guard for 2024 was submitted; however, we have not yet received the necessary funds to complete the purchase. We will prioritize securing the required budget and ensure the antivirus software is promptly updated to maintain the security of the system.	Need to use genuine virus guards which were already expired, to maintain the security of the system.

(iv) The cracked/pirated windows operating system is being used by the hotel without using genuine windows operating system. Due to this, the performance of the computers and system was slow and there is a risk related to the security of the data and information in the computer system too.	Agreed. However, we would like to clarify that the server machines are running genuine Windows operating systems. We acknowledge the issue with other machines and will take necessary steps to address the situation and ensure compliance with software licensing requirements.	Need to use genuine windows operating system.
(v) 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.	<ul style="list-style-type: none"> • Agreed. 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	Need to provide “User Authority levels” related to user accounts.
(vi) 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.	Need to implement accessibility control over the system.
(vii) 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	Need to verify the existence of user wise logins.
(viii) During the period of audit, it was observed that there were several instances in the information system crashes due to various issues. Further temporary breakdowns in the information system were not reported to the management through an incident report and measures have not been taken to prevent them.	The IT department is actively working to enhance system stability and minimize disruptions to hotel operations.	Need to report temporary breakdowns occurring in the information system to the management through an incident report and ensure

about having measures to prevent them on timely manner.

2. Financial Review

2.1 Financial Result

The financial result of the hotel during the last three years period shows continuous operational losses and it has drastically increased over that period. It was clearly noted that the administrative expenses has been increased drastically while the gross profit has gradually decreased, which mainly results for end up with net loss of the hotel as follows;

(Rs. Mn)

Year	2023	2022	2021 (Mgt. FS)	2020 (Audited FS)	2019 (Audited FS)
Revenue	No audited	No audited	68.06	111.16	231.47
Cost of Sales	Financial	Financial	31.83	53.97	87.89
Gross Profit	Statements	Statements	36.23	57.19	143.58
Gross Profit Margin %	or	or	47%	49%	38%
Administrative Expenses	Management	Management	134.15	157.43	195.31
Admin Expenses %	Financial	Financial	197%	142%	84%
Revenue	Statements.	Statements.			
Net Profit/ (Loss)			(110.24)	(85.52)	(46.72)

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation

Management Comment

Recommendation

The hotel has paid Rs.317,250 for a broken-down repairs of a car owned by the hotel on 24 November 2022. The hotel had not followed formal procurement procedure to obtain services from the suppliers and following points were highlighted regarding this expense;

- (i) The hotel has not followed formal procurement procedures to obtain services from the suppliers. Instead of taking quotations from similar suppliers, the management has instructed to do repairs from that particular supplier considering the urgency and following early practice of the hotel.
- (ii) The hotel has not obtained any quotations from the supplier before starting the repair and obtained Board approval only after completion of the repair.
- (iii) As per the Bill No: 224 dated 09 September 2022 details of radian Coolant brand name and liters, Mileage and Warrant period of the Invertor Coolant had not been mentioned by the supplier,

Agreed with audit observation. No action can be taken now as the then Acting General Manager responsible for these decisions is not with the hotel.

Need to take necessary actions on recovery from relevant parties in side of decision made and payments made.

- (iv) As per independent quotation called on 09 May 2024 for Invertor Coolant Pump, from the agent of the car (Toyota) it was Rs.74,061 while the actual payment to the supplier was Rs.317,250. Hence, it was observed that the hotel has paid a higher price for this repair than the prevailing market price at that time which evidenced that very low quotation received to us for the spare part which bought prior to 1 year and 9 months period.

3.2 Identified Losses

Audit Observation	Management Comment	Recommendation
Shortage amounting to Rs.3,694,509 shortages in stock items were identified when comparing the actual stock with the stock counting report dated 24 April 2024.	Agreed with the audit observation. The store management system, in the IDS had not been properly used by the maintenance, housekeeping, kitchen and store staff before due to their lack of knowledge. After the new management took over during this year we started training them, to use some of the kitchen and store modules which were never used before. Our staff was still adopting to the system and were not competent at the time that the stock taking was carried out by the audit team. Therefore, some gaps appear here and there. As of now the staff is fully competent enough to use the system and those gaps are no more, as we are carrying out monthly 40 stock takings.	Need proper inventory control management.

3.3 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
As per the lease agreement between Bank of Ceylon and the Hotel, the hotel 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 hotel had to incurred additional amount of Rs.41,768,277 as electricity expenses from January 2019 to December 2023 due to the electricity charged under general purpose category.	Agreed with the audit observation and we are in communication with BOC in this regard.	Need to take prompt action thereon.

3.4. Operational Inefficiencies

Audit Observation

(i) Income recognition

Room income – Year 2021

- a. Following lapses were identified in room reservation system.
- There were no proper approved documents maintained for room rates provided for customers of the hotel for the year of 2021.
 - A room rate has not been inserting in the room reservation system and therefore it was unable to verify the accuracy of room income for the year 2021.
 - Even though 69 rooms shows in the reservation system, all the rooms were not available for rent out due to, some rooms were not in operational conditions due to lack of maintenance.
- b. Though there are various reports generated from IDS, (accounting system) they do not match with each other. Therefore accuracy of the figures of IDS could not be verified at the audit. Details are as follows.
- Difference in room occupancy statistic between reservation system and occupancy statistic report in IDS system for the year 2021 is as follows;

Period	Room Occupied as per Reservation System	Room occupied as per Occupancy Statistic Report	Difference
February 2021	48	45	03
March 2021	52	51	01
April 2021	105	102	03
May 2021	123	122	01
June 2021	154	152	02
July 2021	114	120	06
August 2021	87	85	02
October 2021	151	146	05
November 2021	217	215	02
December 2021	450	429	21

- Following differences between Night Audit Report and Occupancy Statistic Report regarding the room income for the year 2021 were observed.

Period	Room income as per the Night Audit Report (Rs.)	Room income as per Occupancy Statistic Report (Rs.)	Difference (shortage/excess) (Rs.)
January 2021	82,657	90,258	(7,601)
February 2021	71,867	83,220	(11,353)
March 2021	155,688	183,138	(27,450)
April 2021	453,915	539,477	(85,562)
May 2021	644,976	738,861	(93,885)
June 2021	887,860	1,011,800	(123,940)

Management Comment

Income Recognition - Room Income (2021 & 2022):

We acknowledge the lapses identified in the room reservation system for both years. Moving forward, we will ensure that all room rates provided to customers are properly documented and approved. We are also revisiting our reservation system to ensure that all room rates are accurately inserted and verifiable.

- The discrepancies between various reports (IDS, reservation system, occupancy statistic reports, and night audit reports) are concerning. We are currently working with our IT and finance teams to review and reconcile these differences to ensure accuracy in all financial records and reports.
- Regarding the rooms that were not available for rent due to maintenance issues, we have initiated a thorough review and plan to prioritize the necessary repairs to ensure all rooms are operational.

Recommendation

- Need to take corrective actions to rectify lapses.
- Need to immediately attend or the matter of differences in room occupancy and room income between occupancy report and reservation system.
- Need to develop formal policy for complement any room allocation.
- Need to collect outstanding amount of Rs.2,167,697.54 and take prompt action on decision made

without approval.

July 2021	500,798	514,798	14,000
August 2021	397,422	390,203	(7,219)
September 2021	273,022	278,402	(5,380)
October 2021	641,351	648,884	(7,533)
November 2021	1,176,220	1,280,369	(104,149)
December 2021	2,591,662	2,647,960	(56,298)
Total	7,877,438	8,407,370	(529,932)

3. Out of total occupancy, 14.97 per cent of rooms were provided on complementary basis for customers, banqueted reservations and staff. Therefore total room cost has to be allocated among the balance room occupancy of 85.03 per cent and it also affected for making losses for the year 2021. Details are as follows.

Period	No of Rooms Occupied	Room Paid Customer	Complementary for customers	Complementary for banqueted reservation	Room Nights Complementary for Staff (Duty Manager)
January 2021	37	25	6	2	4
February 2021	45	22	8	-	15
March 2021	51	41	-	-	10
April 2021	102	85	4	-	13
May 2021	122	98	4	-	20
June 2021	152	138	6	-	8
July 2021	120	89	9	2	20
August 2021	85	72	2	1	10
September 2021	66	55	3	-	8
October 2021	146	123	2	11	10
November 2021	215	195	4	9	7
December 2021	429	392	14	15	8
Total	1570	1335	62	40	133

Further it was observed that 133 room nights were provided for staff (Duty Manager) while the accommodation for those staff has been provided by the hotel.

4. It was observed that Rs.2,167,697 has not been collected for the year 2021 from one guest who stayed in whole year. The room was offered at the rate of USD 22 while the listed rate was USD 50 without obtaining an approval from relevant authority. Details are as follows.

Period	Actual Income (Rs.)	Auditors Calculation for		Comple mentary room nights provide d to custome r
		Income (Listed Rate - USD 50 – Room Rate) (Rs.)	Under Collection (Rs.)	
January 2021	100,204	282,394	182,190	6
February 2021	92,391	267,246	174,855	6
March 2021	130,821	297,319	166,498	-
April 2021	111,056	295,380	184,324	4
May 2021	119,594	291,292	171,697	3
June 2021	113,208	296,865	183,657	5
July 2021	117,570	306,792	189,222	4
August 2021	126,401	307,086	180,685	2
September 2021	113,370	297,300	183,930	4
October 2021	126,643	307,675	181,032	2
November 2021	117,909	297,750	179,841	3
December 2021	117,909	307,675	189,766	4
Total	1,387,076	3,554,774	2,167,698	43

Room income – Year 2022

- a. Following lapses were identified in room reservation system.
1. There were no proper approved documents maintained for room rates provided for customers of the hotel for the year of 2022.
 2. A room rate has not been inserting in the room reservation system and therefore it was unable to verify the accuracy of room income for the year 2022.
 3. Even though 69 rooms shows in the reservation system, all rooms were not available for rent out due to 16 rooms rented out for spa and some rooms were not in operational conditions due to lack of maintenance.
- b. Although there are various reports generated from IDS (accounting system), does not match with each other. Therefore, accuracy of the figures of IDS could not be verified at the audit. Details are as follows.
1. Differences in room occupancy between Reservation System and Occupancy Statistic (accounting system) for the year 2022 are as follows;

- Need to take corrective actions to rectify lapses.
- Need to immediately attend or the matter of differences in room occupancy and room income between occupancy report and reservation system.
- Need to develop formal

policy for complementary room allocation.

Period	Room Occupied as per Reservation system	Room Occupied per Occupancy Statistic Report	as Difference
January 2022	436	449	13
February 2022	447	463	16
March 2022	773	784	11
April 2022	469	471	2
May 2022	563	569	6
June 2022	311	325	14
July 2022	300	313	13
August 2022	326	340	14
September 2022	453	469	16
October 2022	493	496	3
November 2022	516	528	12
December 2022	718	733	15

2. Following differences between the Night Audit Report and Occupancy Statistic Report regarding the room income for the year 2022 were observed.

Period	Room Income as per the Night Audit Report (Rs.)	Room Income as per Occupancy Statistic Report (Rs.)	Difference shortage/(excess) (Rs.)
January 2022	2,929,788	1,515,159	1,414,629
February 2022	3,084,321	3,052,474	31,847
March 2022	5,568,443	5,609,512	(41,069)
April 2022	2,592,733	2,586,000	6,733
May 2022	3,268,110	3,755,882	(487,773)
June 2022	4,719,289	4,807,624	(88,335)
July 2022	3,410,996	3,362,435	48,561
August 2022	2,440,478	2,492,803	(52,325)
September 2022	3,143,370	3,031,883	111,487
October 2022	(1,423,229)	3,763,396	(5,186,625)
November 2022	4,469,718	4,273,249	196,469
December 2022	5,751,858	5,497,885	253,972
Total	39,955,875	43,748,303	(3,792,428)

3. Out of total occupancy, 18.29 per cent of rooms were provided on complementary basis for customers, banqueted reservations and staff. Therefore, total room cost has to be allocated among balance 81.71 per cent occupancy and it also affected for making losses for the year 2022. The percentage of providing rooms on complementary basis was in high during the April, May, October, November & December months. Details are as follows.

Period	No of Room Occupied	Paid Customer	Compl ementa ry for custom ers	Comple entary for banquete d reservati on	Comple ntary for Staff (Duty Manager)	Comple ntary Percenta ge
January 2022	436	409	14	07	06	6.19%
February 2022	447	420	22	01	04	6.04%
March 2022	773	678	87	04	04	12.29%
April 2022	469	263	202	02	02	43.92%
May 2022	563	280	280	01	02	50.27%
June 2022	311	293	12	04	02	5.79%
July 2022	300	284	09	06	01	5.33%
August 2022	326	303	14	07	02	7.06%
September 2022	453	433	15	05	0	4.42%
October 2022	493	401	86	06	0	18.66%
November 2022	516	425	88	2	01	17.64%
December 2022	718	554	148	16	0	22.84%
Total	5805	4743	977	61	24	18.29%

Room Income – Year 2023

a. Differences in room occupancy between Reservation System and Occupancy Statistic (accounting system) for the year 2023 are as follows;

Month	Room Occupied as per Reservation System	Room Occupied as per Occupancy Statistic Report	Difference
January	20	763	743
February	583	598	15
March	585	569	16
April	614	607	7
May	862	836	26
June	868	831	37
July	1044	988	56
August	1077	1009	68
September	835	788	47

- a. Possible reasons for differences
1. No-shows and last-minute cancellations
 2. Manual adjustments
 3. System errors
 4. Late check-ins or early check-outs
- a. Need to take corrective actions to rectify lapses.

- b. Possible Reasons for Differences:
1. Timing differences
 2. Tax discrepancies
 3. Manual entries and corrections:
 4. Special discounts or adjustment
- b. Need to immediately

October	782	744	38
November	772	729	43
December	930	901	29

attend on the matter of differences in room occupancy and room income between occupancy report and reservation system.

b. Differences were observed between the Night Audit Report and Occupancy Statistics Report regarding the room income for the year 2023. Details are as follows;

c. No comment

Date	Room Income as per the Night Audit Report (Without Tax) (Rs.)	Room Income as per Occupancy Report (Without Tax) (Rs.)	Statistic (Without Tax) (Rs.)	Difference (Rs.)
01.01.2023	124,947	122,421		2,526
02.01.2023	271,298	266,018		5,280
03.01.2023	133,390	130,825		2,565
04.01.2023	123,425	113,361		10,064
05.01.2023	104,413	102,405		2,008
06.01.2023	68,634	56,508		12,125
07.01.2023	106,972	104,915		2,057
08.01.2023	161,667	158,558		3,109
09.01.2023	126,235	110,732		15,502
10.01.2023	154,961	151,981		2,980
13.01.2023	144,438	137,815		6,623
01.02.2023	587,572	568,583		18,990
02.02.2023	493,848	484,352		9,496
03.03.2023	236,581	232,033		4,549

d. No comment

c. 410 room nights out of 2537 room nights were provided on complementary basis for the period from January to April 2023 without any formal policy for providing on complementary basis and it represented 16.16 percent from the total room nights. Details are as follows.

c. Need to develop formal policy for complementary room allocation.

Period	Total Room Nights Occupied as per Occupancy Report	Paid Nights	Room	Complementary Customers (Excluding banquet functions)	for
January	763	621		142	
February	598	524		74	
March	569	468		101	
April	607	514		93	
Total	2,537	2,127		410	

d. Following losses had been incurred by the hotel for the month of April and May 2023 due to granting at concessionary rates which not set as approved/ standard rates. Details are as follows;

d. Losses need to recover.

Period	Currency	No of Room	Listed Rate	Charged Rate	Loss in Rate	Losses in term of LKR
April 2023	LKR	37	1,025.00	794.59	230.42	72,229.49
	USD	34	396,000	304,100	89,900	89,900.00
May 2023	LKR	30	332,000	229,800	100,200	100,200.00
	USD	115	3,448	2795.76	657.04	203,095.70
Total						465,425.19

(ii) **Maintenance Expenses**

During the period from 01 January 2024 to 30 April 2024, the hotel had incurred an expense of Rs.1,384,950 for repair of rooms.

The hotel had not obtained services from registered suppliers for the purchases of items for repairing and it was done repetitively. Those items amounting to Rs.1,384,950 from various suppliers had been purchased without following the procurement process. Details are as follows;

Date	Cheque Amount (Rs)	Nature of the Cheque
08.01.2024	100,000.00	Cash Cheque
18.01.2024	80,000.00	Cash Cheque
22.01.2024	90,000.00	Cash Cheque
01.02.2024	95,000.00	Cash Cheque
07.02.2024	70,000.00	Cash Cheque
27.02.2024	250,000.00	Account Payee Only
20.03.2024	100,000.00	Account Payee Only
25.03.2024	100,000.00	Account Payee Only
09.04.2024	68,000.00	Account Payee Only
01.04.2024	100,000.00	Account Payee Only
10.04.2024	85,000.00	Account Payee Only
12.04.2024	50,000.00	Account Payee Only
17.04.2024	90,000.00	Account Payee Only
22.04.2024	31,950.00	Account Payee Only
24.04.2024	75,000.00	Account Payee Only
Total	1,384,950.00	

a. Out of the aforesaid cheques, cheques amounting to Rs.435,000 were issued as cash cheques instead of as “Account Payee Only” to the

a.

Agreed with the audit observation. The hotel did not have proper and regular supplier base to supply any requirement of the hotel, not to mention the maintenance suppliers due to non-settlement of creditors in the past. Therefore, we were compelled to buy these requirements from miscellaneous suppliers and service providers in the market on cash basis. But we have now established a supplier base and operating methodically.

Need to develop and follow formal procurement policy.

b. Agreed with the observation as it was obvious under the circumstances explained above.

c. Those are prepaid payments. Following entries are passed when the cheque is issued. Trade Creditor-Debit Bank -Credit → When the goods are received and after GRNs are raised following entries are passed. Inventory / Stock/Expenses-Debit Trade Creditor - Credit.

d. The items referred by you cannot be retained in the stores, as such interim items

relevant suppliers' name.

- b. It was further observed that a part of the "Accounts Payee Only" chques were issued to the name of the Chief Engineer instead of the name of relevant supplier and payments have been made based on the price documents prepared by the chief engineer without obtaining price quotation from the relevant suppliers.
- c. These chques were debited to Trade Creditors and each purchase with different values was release to the chief engineer as advances without a settlement period.
- d. It was observed that the purchased repair items were not recorded in the stock register and some of the purchased stocks were stored in the maintenance department in an unsafe manner during the physical stock inspection carried out on 25 April 2024.

are bought only on need to buy basis for a specific repair. So, they lie in the maintenance dept, only for a very brief period pending completion of the specific repair. It is not practical to keep these interim items in the stores as they may be used when the stores are closed. If we buy large number of such items then they are sent to the stores to add up to the inventory.

(iii) Although the hotel has renewed 04 liquor licenses by spending Rs.1,440,400 for business units in the hotel for the period of 01 January 2024 to 30 June 2024, night club liquor license was not utilized due to night club functions were temporarily suspended.

Agreed with the audit observations.

Need to take corrective measures on cost incurred.

(iv) Further Rs. 47,400 has been paid as a late fee during the renewal of the licenses from 01 January 2024 to 30 June 2024 due to the liquor license was not obtained for the year 2023.

Agreed with the audit observations and situation in relation to liquor license was explained herein under a previous para.

Need to be renewed on time.

(v) IDS Software Package/Hotel Management System

Following observations were identified in the IDS software package;

- a. There was no proper agreement between the vendor and the user even though the hotel had being using the software since 2006.
- b. The hotel 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.
- c. It was observed that no authorized official from hotel 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, 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 hotel.
- 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 hotel 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 as follows.

- a. Agreed with the audit observation and we have now entered in to a new agreement.
- b. Agreed with the audit observation
- c. Agreed with the audit observation.
- d. Agreed with the audit observation.
- 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

Need to take actions on the relevant parties who involved in idle project.

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
Total	8,546,251

due to reasons such as, lack of knowledge, knowledge transfer not taking place effectively when staff is 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.

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

- e. Even though the hotel 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 even up to now for their operations. Therefore it was observed that the cost incurred towards the acquisition of such facilities were idle to the hotel.

1	d facility
Material Management	Purchase Requisitions
Maintenance	All facilities provided by
Management	IDS
HR & Payroll	All facilities provided by
	IDS

- 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 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

- f. As per the proposal dated 23 October 2013 presented by the vendor, the officials of the hotel 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. Though 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;
1. The project was handed over to the supplier of existing version, without following any procurement process; even it is to switch to the new version.
 2. To transfer the existing system to FX-Cloud/Mobility Solution, the hotel 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 this audit report.

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 55 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.

(vi) CCTV System

No comments

a. Need to cover the main risk areas.

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

- 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

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 hotel 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. Need to undertake all the functions

nts and
corresp
ondence
related
to job
position
in the
retireme
nt or
resignat
ion.

(vii) During the inspection performed on 20 June 2024, it was observed that the antique inventory items were stored in the museum in fourth floor of the hotel building without having proper custody and stock maintenance report. This will increase the risk of misplacing of those items. No comments Need to keep under proper custody.

(viii) The provision made by the hotel 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. However hotel had purchased cutlery items worth of Rs.978,811 on 13 March 2024 and no any purchases were made during last 5 years period. Details are as follows. No comments Strictly adhere to replace/refill cutlery items out of the provision made.

Year	2023	2022	2021	2020	2019
Allocation for Breakages	2,666,936	2,132,792	686,972	1,084,533	2,328,666
Purchases of cutlery items	-	-	-	-	-
Disbursed among employees	2,666,936	1,881,857	663,544	965,235	2,018,666
Date of Disbursement	05.04.2024	06.04.2023	06.04.2022	08.04.2021	30.07.2020

3.5 Idle or Underutilized Property Plant and Equipment

Audit Observation

- (i) Out of the total sq: ft: 97,720 of the Hotel premises, sq: ft: 6,528 of the second floor area was idle even up to the date of audit of 22 May 2024 and attention has not been given by the management to renovate this idle part to use in an effective manner. Following observations were made in this regard.
- Old board papers (prior to 1996), receipts, vouchers and personal files and other official documents were stored in the area without any proper arrangements. This may leads to loss of important and confidential documents of the hotel and security risk of information.
 - Further, some renovations have been done by the hotel to get it for reuse and no such costs were presented to audit.

Management Comment Recommendation

Agreed with the Audit observation and the management attention is given to the matters raised in. Need to take prompt action to use space in an effective manner.

- The idle area was not maintained in clean and full of rubbish.

(ii) The elevator allocated for hotel's service had been out of work from considerable time period. Thereby dry food, cooked food, housekeeping items and all other items are moving by heavy trolleys using the passenger elevator. As a result the guests may have feel inconvenient experience due to the damage of passenger elevator caused by heavy loading trolleys.

Agreed with the Audit observation. We have now given a contract to overhaul the service lift and repair the same at a cost of around Rs 2.3M. Lift will be in service soon.

Need to continue maintenance services of the hotel building to provide good customer service.

(iii) Following machines used for wash and dry clothes at laundry department were in idle due to the breakdown. The Innovex Seniorita 5KG washing machine had been handed over to the maintenance department on 22 May 2022 and not yet return to the laundry section. This may affect to the underperformance of laundry department's operations. Details of unutilized machines are as follows.

Almost all these machines are old more than 15 to 20 years. Some models are even out of market. The spares are hard to find by. Therefore, maintenance team has to go right round to search for spare parts or even turn out some parts afresh from specialized lathe shops in case of a breakdown. Furthermore, due to heavy usage and old age once the machine is dismantled for whatever repair the other good parts around the defective part also need to be replaced. So, it is obvious to face delays. This situation cannot be improved, unless we buy new washing machines.

Management should take necessary actions.

No	Machine	Size	Idle time	Current Location
1	Dryer	-	3 months	Laundry
2	Washing Machine (LG)	10kg	1 year	Laundry
3	Washing Machine	15kg	3 years	Laundry
4	Washing machine (Innovex Seniorita)	5kg	More than 2 years	Maintenance Department

Although the machines in the laundry department should be repaired periodically due to heavy usage, hotel is not maintaining regularly. Due to that the machines are often in an inoperative.

3.6 Procurement Management

Audit Observation

Management Comment

Recommendation

3.6.1 Wellness Treatment Center (Spa)

The hotel had rented out night club and Spa to selected company in January 2023 and November 2022. Following deficiencies were identified in the procurement process, awarding of contract and administration of the agreement.

Agree with the audit observation. We intend to re-negotiate the contract afresh and submit a proposal to the

• Should take necessary actions on the relevant persons who involved with procurement lapses, inclusion

(i) Though the procurement committee should be appoint prior to the commencement of the procurement process, the Board of

Directors has appointed the Procurement committee for Wellness Treatment Center and the approval to award tender for that company was given in the same board meeting. Therefore the transparency of the evaluation and selection process of the procurement is questionable related to this procurement.

board. of unfavorable terms into the agreement and losses incurred .

- (ii) The Procurement committee shall appoint the Technical Evaluation Committee (TEC) for technical evaluation of biddings. However, there were no any documents relating to the appointment of TEC.
 - (iii) The procurement committee had not agreed with the TEC on the type and nature of bidding and contract documents to be used for Wellness Treatment Center Bid No: GOH/2022/RFP/01.
 - (iv) Though the TEC is solely responsible for the technical evaluation, the Technical Evaluation report does not available and not presented for the audit. So, the audit is not in a position to evaluate whether the TEC has performed their duties on selection of technically suitable bidder for conducting Wellness Treatment Center of the hotel or not.
 - (v) The proceedings of the meetings of the committee should be recorded in the specified format and authenticated by the present members. However the meeting minutes of procurement were not available for audit review purpose.
 - (vi) All members of PCs and TECs are required to sign a declaration in the prescribed format at its first meeting, affirming:
 - their respect for the commercial confidentiality of the proceedings of the committee
 - their impartiality and probity
 - absence of personal interest
- However declarations of PCs and TECs members were not available for the above procurement.
- (vii) Prior to call tender, the hotel would obtained valuation report and fix the upset price. Based on the upset price a bid security for a fixed lump sum amount equivalent to one percent to two percent (1% to 2%) of the estimated upset price to be obtained in the form of guarantee. However, the hotel had not followed the aforesaid process.

- (viii) As per the Section 4 of the RFP, a Bid Security amounting to Rs.100,000 in the form of bank guarantee cashable on demand, issued in favor of General Manager, Grand Oriental Hotel by a licensed Bank of Ceylon or any other commercial bank operating in Sri Lanka, registered under the Central Bank should be submitted along with the Wellness Treatment Center Bid and should be valid up to 11 March 2022. However, a valid Bid Bond had not been submitted by the selected company the prescribed format of the RFP documents.
- (ix) The bidding period shall be reasonably adequate to prepare the bids and shall commence from the date on which the bidding documents are available for purchase by potential bidders. As per the Newspaper advertisement on 27 February 2022, *“interested parties could collect the bid submission forms from 24 February 2022 to 11 March 2022”* which was below the 21 days of norms of National Competitive Bidding. Further there is no any record available for bid received other than selected company and there is no any sealed envelope available with the proposal.
- (x) Bids shall be opened in the presence of the bidders or their representative/s who wish to attend, soon after the closing of Bids. As per the paper advertisement *“bid closing date was 11 March 2022 and bid opening will be held on 14 March 2022”*, which was 03 days later from bid closing date. Further there is no any record available for bid opening meetings.
- (xi) As per the paper advertisement, *“Bidder must demonstrate a minimum of five years’ experience in a star class operation or 2 years’ experience of having had international Treatment Center with International collaborations. The service provider must be highly recommended, qualified and possess expertise in the field of Wellness Treatment.”* However, it was observed that the relevant company incorporated in 11 February 2022. Further the bidder does not presented relevant experience in the field of Wellness Treatment and only presented collaboration letters with Samsara Wellness Therapy & Yoga in Bali. According to all these facts, it was observed that the company incorporated just before 16 days of the paper advertisement and seems that it has been incorporated only for the purpose of taking tender of Wellness Treatment Center in the Hotel.
- (xii) Immediately after the evaluation is completed the TEC should prepare a bid evaluation report and submit to the PC together with all supporting documents. However Bid evaluation report has not been prepared for this purpose.

(xiii) On behalf of the hotel, the MOU has signed by the Chief Accountant, Account Receivable Officer and Acting General Manager with selected company on 01 November 2022 without setting such authority in their duty list or delegated power. There by it was observed that, certain operating staff members have entered in to an agreement with a third party on behalf of the Board of Directors without having formal authority to enter into such agreement such as delegated power from the Board.

(xiv) Furthermore, the company stated that a formal rent agreement could not been signed due to lack of valid lease agreement with Bank of Ceylon, active tourist board license and active alcohol license for hotel operations. Thereby it is serious doubt about how this company conducts their operations in formal way and how they can go for any legal actions if any breach occurs in MOU.

(xv) Following differences were observed between the Board approved terms and the singed MOU terms.

	Terms	Board approved Terms	Terms included in MOU	Application of company and result of transaction
i	Non Refundable Deposit	Total Rs.3.5 million Non-refundable deposit including first stage Rs.1.75 million Security Deposit at the time of signing the Contract and balance Rs.1.75 million at the end of six months from signing the Contract.	This term has not been included in the MOU.	The hotel has not taken non-refundable deposit from Infinity Events & Entertainment (Pvt) Ltd and lost the possible income could be earned on such deposit.
ii	Rent Income	Rs.350,000 Rental per month for the first six months of operations.	The Rent to the hotel for operational rooms will be Rs.30,000 per room used per month.	Rs.1.56 million under collection of rent income was observed due to difference between the Board approved rate and actual rate charged for the period from December 2022 to May 2023 (the

				Rs.750,000	The Rent to	Rs.2.1 million
				Rental per	the hotel for	under collection
				month from	operational	of rent income
				the seventh	rooms will be	was observed due
				month to next	Rs.30,000	to difference
				54 months.	per room	between the
					used per	Board approved
					month.	rate and the actual
						rate for the period
						from June 2023 to
						December 2023.
iii	5% on	Allocate a	This term has		Lost of additional	
	revenue	5% on	not been		income for the	
	on room	revenue to	included in		hotel.	
	therapy	the Grand	the MOU.			
		Oriental				
		Hotel on				
		room therapy				
		carried out.				
iv	Water &	Water,	Rs.5,000 for		Actual utilization	
	Electricity	electricity	electricity		cannot be verified	
	bills	bills of	per room		reliably due to	
		proposed	used per		unavailability of	
		area to be	month and		separate meters	
		paid by the	that will		for the proposed	
		party	increased by		area and Rs.5,000	
		concerned.	10% every		can't be justified	
			two years		as sufficient	
			from the date		reimbursement	
			of signing the		for utilization.	
			agreement.			

(xvi) Further following conditions were included to the MOU which could be adversely affected to the hotel operation, goodwill and cost of maintenance.

- a. One month rent free period executed from the date of signing the agreement to repair and refurbish the rooms together with the Grand Oriental Hotel Engineering and maintenance staff at the Phase 01 and Phase 02.
- b. Front office of party to provide following services.
 - Taking calls and providing information to the client.
 - Directing Client to the Pub and KTV rooms.
- c. To provide in-house laundry service at a concessionary rate by the hotel.
- d. To provide food & beverage by the Grand Oriental Hotel to the Directors, Management and special guests at a special discount of 55 per cent. .
- e. To provide staff meals at a concessionary basis.
- f. To provide Deluxe Double Rooms as selected party in very good condition on the third and fourth floors for Rs.100,000 per room per month for the management, their guests, their collaborators when required.
- g. To provide 50 per cent discount on any rooms & suites of

hotel to accommodate Directors, specialists, guests & Invitees that will be involved in the operations of the wellness and yoga business.

- h. To provide complementary rooms & suites and food & beverage for partnership and sponsorship programs done in relation to wellness and yoga business.
- i. To provide telephone, internet infrastructure facilities, in-house housekeeping & maintenance regularly.
- j. In the event of selected company has to wind up the business due to the mistakes, faults & failures to meet commitments said and agreed upon by the Hotel, the Hotel has to pay compensation for all company's investment made amounting to Rs.15 million in monetary terms with an 12% interest per annum from the date of signing the MOU and a penalty of Rs.2 million. However no any evidence was presented to the audit regarding infusion of the investment amount of Rs.15 million by the selected company.

(xvii) The wellness center is using inventories which are belonging to the hotel. As per the records available with Housekeeping Manager, 16 rooms were handed over to the selected company with furniture and electric equipment. At present the Spa is partly operating and they have returned 04 rooms in April 2024 to the hotel, At the time of return, it was observed that following items were missed out from those rooms. Further out of 04 rooms, 03 rooms were in non-operational condition at the time of handing over to the hotel due to lack of maintenance and hotel have to invest additional finance to bring those rooms in to operational condition. Missed out items are as follows;

Room No.	Mini Fridge	Electric Kettle & T Set	Dressing Table	Dressing Table Chair
401	01	01	-	-
402	-	01	-	-
403	-	01	-	-
404	-	01	01	01

(xviii) The selected company does not hold valid Tourist Board license for operate a Spa.

(xix) Rs.4,305,000 of rent income from Wellness Treatment Center for the period from December 2022 to December 2023 has been recorded under room income category instead of rent income, and 10 per cent service charger amounting to Rs.334,499 were paid to employees based on those rent income which is a lost to the hotel.

(xx) It was further observed that out of 16 rooms only two rooms (Room No: 406 & 409) were in out of order status at the time of handing over to the Infinity Events & Entertainment (Pvt) Ltd to operate the Wellness Treatment Center and other 14 rooms were

in occupied status. Therefore it is questionable why the hotel rented out occupied status rooms to a third party at low price than the room rate offered to guest and it is contradicted with the profit maximization objective of the hotel. Further, there were non-operating rooms in the same floor which are not selected for this purpose. As well as the hotel has not done any cost benefit analysis prior to this procurement.

3.6.2 Night Club (Blue Leopard) & A VIP KTV (Karaoke for Foreigners and the Hotel Guest) on the Fourth Floor at the Hotel.

- | | | |
|---|--|---|
| <p>(i) Though the procurement committee should be appoint prior to the commencement of the procurement process, the Board of Directors has appointed the Procurement committee for Night Club (Blue Leopard) & A VIP KTV (Karaoke for Foreigners and the Hotel Guest) and the approval to award tender for same supplier who was selected for Wellness Treatment Center (Spa) on the same board meeting. Therefore the transparency of the evaluation and selection process of the procurement is questionable related to this procurement.</p> | <p>Agree with the audit observation. We intend to re-negotiate the contract afresh and submit a proposal to the board.</p> | <p>Should take necessary actions on the relevant persons who involved with procurement lapses, inclusion of unfavorable terms into the agreement and losses incurred.</p> |
| <p>(ii) Though the Procurement committee shall appoint the Technical Evaluation Committee (TEC) for technical evaluation of biddings, there were no any TEC members appointed for the procurement. Therefore no any agreed bidding documents and contract documents to be used for Night Club and KTV room procurement.</p> | | |
| <p>(iii) Although the TEC is solely responsible for the technical evaluation, the tender was awarded without the report of TEC.</p> | | |
| <p>(iv) The proceedings of the meetings of the committee should be recorded in the specified format and authenticated by the members present. However, the meeting minutes of procurement were not available for audit review purpose.</p> | | |
| <p>(v) All members of PCs and TECs are required to sign a declaration in the prescribed format at its first meeting, affirming:</p> <ul style="list-style-type: none"> - their respect for the commercial confidentiality of the proceedings of the committee - their impartiality and probity - absence of personal interest | | |

However, declarations of PCs members were not available for the Night Club (Blue Leopard) & A VIP KTV procurement.

- (vi) Prior to call tender, the company would obtained valuation report and fixed upset price. Based on the upset price bid security in the form of guarantees should be obtained for a fixed lump sum

amount equivalent to one percent to two percent (1% to 2%) of the estimated upset price. However, the hotel had not follow the aforesaid process.

- (vii) As per the Section 2.4.6 of the RFP, a Bid security amounting to Sri Lankan Rupee fifty thousand should be provided in the form of bank guarantee issued by a bank operating in Sri Lanka Licensed/registered under the Central Bank of Sri Lanka acceptable to employer using the form for Bid Security Bond (unconditional guarantee) or a cash deposit slip by the prospective bidders. However, a valid Bid Bond has not been submitted by the form of Bank Grantee of License Commercial Banks in Sri Lanka as per the prescribed format of RFP by Infinity Event and Entertainment (Pvt) Ltd. Further Rs.50,000 deposit has been made in Hatton National Bank by inserting following account details. Account Name: Hotels Colombo 1963 Ltd
Account No: 8579
Further other bank transfer slip was available in HNB letterhead without valid signature. However, there was an unidentified deposit on 18 August 2022 (Same date as deposit slip) in the above current account.
- (viii) The bidding period shall be reasonably adequate to prepare the bids and the bidding period shall commence from the date on which the bidding documents are available for purchase by potential bidders. As per the Newspaper advertisement on 07 August 2022, *“interested parties could collect the bid submission forms from 08 August 2022 to 19 August 2022”* which was below the 21 days of norms of National Competitive Bidding. Further there is no any record available for bid received other than the Infinity Events & Entertainment (Pvt) Ltd and there is no any sealed envelope available with the relevant proposal.
- (ix) Bids shall be opened in the presence of the bidders or their representative/s who wish to attend, soon after the closing of Bids. As per the paper advertisement *“bid closing date was 22 August 2022 and bid opening will be held on 23 August 2022”*, which was 01 days later from bid closing date. Further there is no any record available for bid opening meetings.

- (x) As per the paper advertisement, *“the bidder must have a minimum experience of Two Years in the management, operations and entertainment business in a reputed three star hotel establishment in the city of Colombo. Preference will be given to those with experience in a five star hotel in Colombo. Proof and reference on the above requirements must be submitted with names when submitting the RFP”* However it was observed that the selected company was incorporated on 11 February 2022 which has not completed at least two years from its incorporation and proof documents were not available with the bidding documents.
- (xi) Immediately after the evaluation is completed the TEC should prepare a bid evaluation report and submit the PC together with all supporting documents. However, Bid evaluation report has not been prepared for this purpose due to absence of TEC.
- (xii) Formal rent agreement has not been signed due to lack of valid lease agreement with Bank of Ceylon, active tourist board license and active alcohol license for hotel operations.
- (xiii) As per the board approval, the tender has awarded to the selected supplier to invest, manage, operate & Run the entertainment Business of a Night Club & a VIP KTV on the fourth floor at the Grand Oriental Hotel.
- (xiv) Following differences were observed between the Board approved terms and the signed MOU terms.

	Terms	Board approved Terms	Terms included in MOU	Application of company and result of transaction
a	Non Refundable Deposit	Total Rs.1 million Non-refundable deposit including first stage Rs.0.5 million Security Deposit at the time of signing the Contract and balance Rs.0.5 million at the end of six months from signing the Contract.	This term has not been included in the MOU.	The company has not taken non-refundable deposit from Infinity Events & Entertainment (Pvt) Ltd and has lost the possible income on such deposit.
b	Rent Income	Rs.250,000 per month for the first three months of operations. Rs.300,000 Rental for second three months.	The Rent to the Night Club operation is Rs.150,000 per month.	Rs.2.4 million under collection of rent income was observed due to difference

Rs.400,000 rent from the seven month onwards.

between the Board approved rate and actual rate for the period from February 2023 to December 2023.

c Rental for Rs.100,000 rental Rs.30,000 Rs.500,000
 VIP KTV for the first year. per room under
 rooms rental for the collection of
 month. rent income
 was observed
 due to
 difference
 between the
 Board
 approved rate t
 and actual rate
 for the period
 of February
 2023 to
 December
 2023.

(xv) In the event of selected company has to wind up the business due to the mistakes, faults & failures to meet commitments said and agreed upon by the Hotel, the Hotel has to pay compensation for all company's investment made amounting to Rs.40 million in monetary terms with an 12% interest per annum from the date of signing the MOU and a penalty of Rs.2 million. However no any evidence was presented to the audit regarding infusion of the investment amount of Rs.40 million by the selected company.

(xvi) The management of the hotel has not maintained inventories which are handed over to the Night club and thereby hotel was unable to verify proper handing over of their assets on Infinity's exit.
 Rs.600,000 rent income of VIP KTV rooms and night club for the period from February 2023 to December 2023 has been recorded under room income category. Further 10% service chargers from total rent income and room income amounting to Rs.181,082 paid to employees and it was lost to the company.

3.6.3 Soft Refurbishment of the Hotel

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

- Agreed with the Audit observation.
- Payment of the invoice submitted by the SEC is
- Need to be determined the loss of the project and to take remedial actions to

(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 hotel 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 hotel and the State Engineering Corporation. For this works the hotel had paid Rs.174,364,376.78 to the State Engineering Corporation as at the date of audit without any formal agreement.

(iii) The agreement between the hotel and the State Engineering Corporation was signed by one of the directors and the chief accountant of the hotel. However, it was observed that the Chief Accountant does not have the authority to sign contracts towards major transactions of the hotel 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 formal appointment by cabinet decision which was given 1 year and three months later from work started or 9 months after the work completion. Hence this is an informal transaction done by the hotel.

(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 in 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

still pending recover it. without being • Need to follow finalized as the up the board of GOH discussion. 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 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,

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 Hotel and to finance the project by way of a term loan of Rs. 250 Mn to the Hotel.
- As a result, a tripartite agreement was entered between Selendiva Investment Limited (SIL), State Engineering Corporation and the Hotel 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 under “Vistas of Prosperity and Splendor”. According to that plan, the city of Colombo is proposed to be developed as “The new Colombo of 21st Century” which includes the transformation of surrounding area of the Hotel 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 the project works.
- (vii) Although, the Project handing over certificate of this project was given to the Hotel by the State Engineering Corporation, the Hotel had not sign the certificate expressing their consent on successfully completed. 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 Hotel 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 hotel side to supervise the project (consultant and contractor), no such official has been appointed thereon. As a result, the hotel could not monitor the external party’s works to ensure that works have been effectively carried out.

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 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.

- (ix) On 07 June 2023, the chief engineer working in the hotel 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 hotel entrance will be so beautiful.
 - Both doors are at the hotel main entrance not closing properly. There may be a safety issue due to not changing the hinges of the main door is not completed properly.
 - The hotel 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 number 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.
- (xii) Following observations are made on the repair of Neon Light Board (GOH Sign Board)
- a. Though the Neon Light Board was fully repaired by the project, it was completely disabled as at the date of audit. However, the repair cost was mentioned in the final bill submitted by the contractor and the consultant had certified the cost. Accordingly, it was observed that the consultant of the construction had certified to pay on failed works.
 - b. The hotel had arranged to repair the Neon Light Board again from another party without following any formal procurement process and only one price quotation has obtained and a supplier selected for a price of Rs.726,000. The board was handed over to that supplier in March 2024.

- c. Company had not entered in to a service agreement with the supplier, including terms and conditions related to repairing and handing back the Neon Light Board. Furthermore Neon Sign Board had not been handed over to the supplier in a formal way.
- d. Although it was mentioned in the supplier's price quotation that the repair would be completed within 02 weeks, the name plate had not been repaired and returned back to the Company till the date of the audit on 21 June 2024. However, it was observed that an advance amount of Rs.471,900 has been already paid to that supplier before completion of significant amount of the works.
- e. Since not having a neon signboard, the hotel name is not visible at night time and may affect to lower the first impression of the hotel.

3.7 Human Resource Management

Audit Observation	Management Comment	Recommendation
<p>(i) Lack of proper Human Resource Management Policy It was observed that there was no proper Human Resource Management guideline for the company even up to 14 June 2023. As a result of this, employee recruitments, promotions, salary increments, disciplinary actions and terminations of employment had been taken place through the decisions of management and some influential parties without following unique and formal procedures. As per the Human Resource Management Manual which was presented to the audit, it was mentioned that this guideline was adopted by the Board of Directors by getting the approval through the Board Meeting No. 675 which was held on 14 June 2023. However, it was unable to verify whether the relevant approval has granted through Board meeting No. 675 due to non-submission of Board Minutes relevant to the said Board meeting.</p>	<p>In 2023, the HR Manager updated the HR Policy Manual to correct the issues with the non implementation of previous HR rules and regulations. The revised manual was approved by the Board of Directors of the Bank of Ceylon. As a result, recruitment and promotions were based on performance. Due to the company's reduced income, which led to several employees leaving the company because salaries are low, as indicated in exit interviews. Additionally, there was a plan to remove employees who violated specific corporate rules.</p>	<p>Need to submit Board minute no.675 for audit review.</p>

- (ii) **Lack of Human Capital Plan**
 As per the Section 2-2 (IV) of the aforesaid Human Resource Policy Manual, the recruitment should only be carried out in accordance with the bases of operational needs and approved Carder requirement. However, the hotel has not maintained a board approved carder even up to the date of audit (16 May 2024). Thereby, hotel had not assessed the carder requirement based on the hotel's operational capacity to maintain the right number of employees. Further according to the Section 2-2 (II) of the Human Resource Policy Manual, Head of Divisions are required to conduct a comprehensive review of the operations, structure and human resources requirement and associate cost of their divisions each year, and furnish justification of HR Plan for the following financial year to the HRD. The HRD is responsible for reviewing the justification and compiling a corporate HR plan for the financial year. The HR plan sets out the number of posts by level and by Division. However, Human capital plan for the financial years of 2021, 2022 & 2023 had not been presented to the audit.
- In response to the audit observations, we acknowledge the need to improve our recruitment and HR planning processes. To address these issues, we have taken the following steps:
 - Reducing HR Cost
 - Card Requirements
 - Annual HR Plan Reviews
 Moving forward, the HR department is committed to presenting comprehensive Human Capital Plans on time and ensuring alignment with operational needs to better manage employee requirements and enhance organizational efficiency
- Board approved carder should be there and recruitments should be accordingly. And Human capital plan should be prepared for each year.
- (iii) **Employee Turnover**
 The employee turnover of the hotel has gradually increased from the year 2019 to the year 2022. During the period from 2019 to 2023, the highest value of employee turnover rate was recorded as 121 percent, and its growth rate is 231 percent compared to 2021. Although the employee turnover rate has decreased to 50 percent in 2023, it remains significantly high. During the audit, it was observed that the increase in employee turnover in the organization was caused by the lack of proper management of employee grievances, lack of equitable access for all employees in the organization, and the job security uncertainty.
- The hotel's employee turnover has been notable from 2019 to 2022, reaching a peak of 121 percent and experiencing a significant growth of 231 percent compared to 2021. Although the turnover rate has improved to 50 percent in 2023, it remains high. The audit identified key factors contributing to the turnover, including challenges in managing employee grievances, inconsistencies in employee treatment, and
- Need to have a proper HR management.

concerns about the organization's stability. In response, the HR department has implemented targeted measures to address these issues, such as enhancing grievance management processes, ensuring fair treatment of all employees, and improving communication about the organization's future. These proactive steps are expected to contribute to further reductions in turnover and increased employee retention in the future.

(iv) **Salary Increments for Employees**

A formal policy or a unique method for salary increment was not available for the hotel. Salary increments were granted based on the decisions made occasionally based on the negotiations of the employees. Selected salary increment details are as follows;

PF No.	Period of Employment (Nearly years)	Average Increments per Year
4248	3 Months	30,000
3863	8	701
3693	5	1,884
3915	2	10,735
3438	6	14,254
3867	24	1,664
3447	5	6,326
3878	2	10,676

PF4248-salary increment done to retain from resignation.

The formal salary increment policy need to be developed.

PF4229-based on contract renew.

PF 2721-after end of year 2022 increment given on 2024.

PF 3693-with new job role given salary increment.

PF 3915-with job responsibilities expansion.

PF 3867-individual performance basis

PF 3438-increment not sign by HR manager will obtain necessary approvals.

PF 3447-individual performance basis

PF 3878-sudden lack of staff and handled both job roles.

(v) **Management Competency**

Hospitality management field is a specific field and therefore top management should have a sound knowledge in the Hotel Industry with long period of experience. This is one of the major facts which affect for the growth of the hotel. However, main position of the hotel such as current CEO and Human Resource Manager, are having high professional experience in the banking field, and do not have any previous experience in the Hospitality Management and the hotel industry. The board of the hotel need to be more concern about this matter when they are recruiting top managerial employees for the hotel since the business is contradictory in nature with the parent company.

- According to the Board of Directors' decision, the appointments of the current CEO and Human Resource Manager were made based on their extensive experience and skills in the banking sector. The Board recognized that, despite their lack of direct experience in the hospitality industry, their expertise in management and operations would bring valuable perspectives to the hotel.
- The hotel's revenue is currently low, and experienced professionals from the hospitality industry are requesting higher salaries, which influences the decision. Given these considerations, the Board decided to appoint the CEO and HR Manager. The Board will continue to assess the impact of these appointments and consider further steps to ensure alignment with industry-specific requirements in the future.

- (vi) **Hiring casual employees' on daily basis**
 The hotel had recruited casual employees' on daily basis for the years of 2020, 2021, 2022, 2023 and 2024 (up to 19.06.2024) by incurring a cost of Rs.262,750, Rs.782,251, Rs.570,718, Rs.72,500 and Rs.407,500 respectively. However, no any agreement were found on these hiring employees with manpower suppliers and these hiring has been solely done by the other departments of the hotel without any involvement of HR department which is responsible for all the HR related activities.
- It was observed that the hotel hired casual workers on a daily basis from 2020 to 2024 (up to June 19, 2024). There were no formal contracts with manpower suppliers, and these hires were managed by various departments without HR involvement.
 - This approach likely stemmed from the need to address staffing shortages and manage costs in a period of minimal income. Moving forward, the HR department will take responsibility for overseeing all casual hiring processes to ensure compliance with hotel's policies and enhance management efficiency.
- Need formal policy for hiring casual employees.
- (vii) **Ongoing Labor Cases**
 The following cases are ongoing for disciplinary actions;
Case No:
- LT01/86/200
 - HC 5619/11
 - 01/08/2020
 - L.T. 01/29/2016
- The following labor cases were filed against the hotel: – LT 01/86/2006 & HC 5619/11 (Lanil Jayawardene), – 01/08/2020 (W. Chandana Kumara), – LT 01/29/2016 (W.P. Karunaratne).
- Need to follow up the court cases.
- (viii) **Maintaining Personnel files**
 Out of the sample of 18 personal files, following observations were made.
- a) The job descriptions and job specifications had not been available, for following employees, even though it is mandatory HR function of any
- a. We acknowledge that this oversight occurred because the specific files selected for review were not up to-date. However, we
 - a. Job description and Job specification should be available.
 - b. Hotel should

company. Further it is the basic measure link for employees' performance evaluation which uses their increments, bonus and all other allowances.

Example:

PF No.	Designation
4251	Chief Executive Officer
4252	Human Resource Manager
4248	Finance Manager
3438	Chief Accountant
3915	Assistant Accountant
3867	Assistant Restaurant Bar Manager
3878	Senior Supervisor
3885	Senior Captain
2721	Bar & Restaurant Supervisor
1085	Senior Front Office Manager
3895	Chief Engineer
4229	Bar Captain

have job descriptions and specifications available in other personal files. Moving forward, we will ensure that all personal files are complete and contain the necessary job descriptions and specifications. This will be a priority to maintain compliance and support effective performance management.

have proper evaluation process.

C, d and e. Personal files should be maintained with all relevant documents.

- b) The company should have the performance evaluation process which is highly important to link with the performance rewards. All the Base pay increases, Variable bonus decisions, Promotions and Transfer and secondments should be done accordingly. However, during the review of personal files, it was observed that the company had not conducted performance evaluations of the employees for particular time intervals (at least yearly). Therefore, decisions regarding the increment to salary, bonus, new allowances, promotions etc.. had been done by the management at their discretions. Details are as follows.

PF No.	Designation
3438	Chief Accountant
3447	Senior Accounts Receivable Executive
3915	Assistant Accountant
3863	Senior Florist
3867	Assistant Restaurant Bar Manager
3878	Senior Supervisor

3885 Senior Captain
 2721 Bar & Restaurant
 Supervisor
 4229 Bar Captain

c) Documents regarding educational/ professional qualifications had not been available in the personal file of following employees.

PF No.	Designation
3906	(Former) General Manager
4251	Chief Executive Officer
4252	Human Resource Manager
4151	Room Division Manager

d) Furthermore details and documents regarding the working experience of the following employees were not included in the personal files.

PF No.	Designation
3906	(Former) General Manager
4251	Chief Executive Officer
3895	Chief Engineer

e) It was observed that personal file management is not at satisfactory level and all the documents inside the files were not properly numbered and attached to the personal files. This may cause to the misplaced of personal documents.

4. Accountability and Good Governance

4.1 Board

Audit Observation	Management Comment	Recommendation
According to the best practice on Corporate Governance, all three Non-Executive Directors should be independent. However hotel's Board does not consist with any independent directors.	Notify to the Board of Directors.	Board should take necessary action.

4.2 Audit Committee

Audit Observation	Management Comment	Recommendation
(i) To establish formal and transparent arrangements within Audit Committee, the committee should exclusively consists from minimum 3 non-executive directors from which at least two should be independent as per best practice on Corporate Governance. However hotel's Audit Committee doesn't consist with any independent director.	Notify to the Board of Directors.	Board should take necessary action.

- (ii) The Accountant of the hotel has acted as a director in Audit Committee for the following meetings who couldn't be considered as non-executive and non-independent director. The details of the committee meetings are given below.

Date	Committee Meeting Number
08 October 2020	55
19 March 2021	56
08 June 2021	57
23 September 2021	58
26 November 2021	59
19 May 2022	60
19 August 2022	61
14 December 2022	62

- (iii) Furthermore the committee should be chaired by an independent non-executive director for the better governance. However committee has chaired by a non-independent director.

Notify to the Board of Directors. Board should take necessary action.

Notify to the Board of Directors. Board should take necessary action.