

**1. Financial Statements**  
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**1.1 Opinion**  
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The audit of the financial statements of the Hotel Colombo (1963) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My commences and observations which I consider should be reported to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**  
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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial statements**  
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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

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

#### **1.4 Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company ;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Financial Statements**

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### **1.5.1 Internal Control over the preparation of Financial Statements**

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(i) Although a property plant and equipment register are being maintained in excel file, it was noted that a comprehensive register of all property, plant and equipment has not been maintained, with adequate details, proper control and monitoring process.	No Comment	It is recommended to maintain a comprehensive and updated fixed asset register for all categories of fixed assets.
(ii) It was noted that unavailability of serial order for Good Received Notes.	No Comment	It is recommended to update the accounting system to generate serial order number for Good Received Notes.

(iii)	Gaps in relation to the serial numbers in reservation vouchers, invoices and purchase orders were observed.	No Comment	It is recommended to upgrade the system properly to overcome the particular issues in the system.
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### 1.5.2 Unreconciled Control Accounts or Records

	Audit Issue -----	Management Comment -----	Recommendation -----
(i)	A difference of Rs.8,758,200 was observed in relation to interest receivable - treasury bills, interest receivable - fixed deposits and WHT receivable accounts when compared the general ledger balances with the independent calculation of the auditor.	No Comment	It is recommended to pass relevant journal entries to reflect the correct balance.
(ii)	A difference of Rs.2,452,116 was observed between the VAT receivable balance as per the general ledger and the balance as per the VAT return.	No Comment	It is recommended to reconcile the difference and pass the relevant journal entries.
(iii)	Differences ranging from 19.85 per cent to 109.01 per cent was observed between the employee turnover ratio calculated independently by the auditor's and the employee turnover ratio used for the retirement benefit obligation calculation.	No Comment	It is recommended to calculate employee turnover ratio correctly by using reliable information and correctly estimate the retirement benefit obligation of the company.
(iv)	A difference of Rs.1,919,178 was observed between the gratuity provision calculated as per Gratuity Act and the actual provision made by the company.	No Comment	It is recommended to correctly calculate the retirement benefit obligation by the company.

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| (v)    | A difference of Rs.645,073 was observed between the balance as per the general ledger and the confirmed balance in relation to interest receivable on Treasury Bills. | No Comment | It is recommended to reconcile the difference and pass relevant journal entries.                      |
| (vi)   | A difference of Rs.2,255,914 was observed between the NBT payable amount as per the general ledger and the payable balance as per the NBT return.                     | No Comment | It is recommended to reconcile the difference and pass relevant journal entries.                      |
| (vii)  | A difference of Rs.578,584 was observed between the balance as per the general ledger and the confirmed balance in relation to amount due to related parties.         | No Comment | It is recommended to reconcile the difference and pass the relevant journal entries.                  |
| (viii) | A difference of Rs.746,218 was observed between the rent income agreed between the counter parties and the income recognized in the general ledger.                   | No Comment | It is recommended to recognized the correct income as per the agreement entered between both parties. |

### 1.5.3 Documentary Evidences not made available for Audit

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Audit Issue				Management Comment	Recommendation
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Item	Amount (Rs.)	Evidence Available	Not	No Comment	It is recommended to provide all the supporting documents for the audit purpose.
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Trade Debtors	9,805,364	Direct confirmation			
Guest Ledger	1,171,366	Invoices			
Other Accrued Expense	3,804,730	Schedule of balances			
Cash in Hand	3,112,400	Management confirmation			
Trade Creditors	15,839,395	Direct confirmation			
Marketing Expense	337,636	Invoices and other third party documents.			
Administration Expense	303,774				
Personal Expense	119,371				

## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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The deposit and prepayment balance amounting to Rs.334,722 had been brought forward since two year period.	No Comment	It is recommended to take necessary action to clear long outstanding balances.

## 1.7 Cash Management

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(i) An unidentified direct deposit balances aggregating to Rs.544,910 was reflected in the Bank reconciliation statement of the company.	No Comment	It is recommended to identify direct deposits to the Bank accounts of the company and pass relevant journal entries accordingly
(ii) Cheque numbers are not entering into the general ledger when posting check receipts.	No Comment	It is recommended to strengthen the transaction recording process of the Bank.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a loss of Rs.24,713,735 and the corresponding loss in the preceding year amounted to Rs.57,150,225. Therefore an improvement amounting to Rs.32,436,490 of the financial result was observed. The main reason for the improvement is increase of revenue by Rs.33,217,692 or 14 per cent compare to the previous year.

### 2.2 Trend Analysis of major Income and Expenditure Items

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The restaurant income and apartment income of the company had increased by Rs.27.5 million and Rs.6.9 million or 25 per cent and 7 per cent respectively as compared with the previous year. The cost of sales had also increased by Rs.13.4 million or 17 per cent by following the increase of sales. The

other operating income increased by Rs.2.9 million or 40 per cent in 2018 compare to the previous year mainly due to profit on sales of motor vehicle. The net finance income also increased by 9 million or 114 per cent compare to the previous year due to increase of investment of fixed deposit by Rs.14.7 million or 10 per cent.

### 2.3 **Ratio Analysis**

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According to the Financial Statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

	<b>2018</b>	<b>2017</b>
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<b>Profitability Ratio (Percentage)</b>		
Net Profit Ratio	(9)	(22)
Return on Total Assets	(9)	(20)
Return on Equity	(17)	(34)
<b>Liquidity Ratio ( Number of time )</b>		
Current Ratio	1.66	2.09
Quick Ratio	1.58	1.99

Following observations are made in this regard.

- (i) All the profitability ratios as illustrated in the above table shows negative figure due to net losses incurred by the company in the year under review and the preceding year. However, the negativity of all the profitability ratios has been decreased in the year under review when compared with the preceding year mainly due to increase of revenue in the year under review.
- (ii) Liquidity ratios have been decreased by 21 per cent in the year under review when compared with the preceding year and it is an indication for the liquidity problems of the company.

### 3. Operational Review

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#### 3.1 Uneconomic Transaction

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##### Audit Issue

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The company has made an excess payment of Rs.353,701 than the due amount for tourist development levy.

##### Management Comment

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No Comment

##### Recommendation

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It is recommended to strengthen the internal control system of the company to ensure the correct payment is made to the relevant parties.

#### 3.2 Human Resource Management

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##### Audit Issue

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As per section 9.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, Company should have an organization chart with an approved cadre and it should be registered with the Department of Public Enterprises, General Treasury. The company had not been acted to get approved the organizational chart and the cadre as per their requirement.

##### Management Comment

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No Comment

##### Recommendation

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It is recommended to have an organization chart with an approved cadre and it should be registered with the Department of Public Enterprises.

As per section 9.7 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, the company should have approved scheme of recruitment and promotions and salaries and allowances should be based on that. However, the company had not complied with the requirement.

No Comment

It is recommended to determine salaries and allowances based on approved scheme of recruitment and promotions.