

**1.1 Opinion**

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The audit of the financial statements of the Canowin Hotels and Spa (Private) Limited (“Company”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

#### 1.5. Non Compliance with Laws, Rules, Regulations and Management Decisions etc.

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<b>Sri Lanka Accounting Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) Company had obtained franchise of Subway international for 20 years period from 26 October 2018 and started the operation on 1 July 2019 and this had not been considered as intangible asset in its financial Statement according to Sri Lanka Accounting Standard(LKAS 38).	Agreed, we will recognize the franchise of Subway international as an intangible asset according to the LAKS 38	Management should comply and adhere with the accounting standard.
b) According to the section 21 of the LKAS 40- Investment Property - The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Contrary to the accounting standard (LKAS 40) - Investment property Assets purchased for Arcade usage amounting to Rs 2,114,306 was included in the company Asset Register and considered as a company assets.	This will be transferred to investment property according to the LKAS 40.	Management should comply and adhere with the accounting standard.
c) Lease contracts of the company had not been treated according to the accounting standard (LKAS 16 - Lease) which would be applied from 1 January 2019.	Agreed, we will recognize these leases on statement of financial position as a Right of use assets and lease liabilities according to the SLFRS 16 – “Leases”	Management should comply and adhere with the accounting standard.
d) Contrary to the Accounting Standard (LKAS 1 - Presentation of Financial Statement) company had set off Rs. 827,737 shown under Deposit Control Account against statutory receivable balance of Rs. 3,021,400, hence, the debtors balance and creditors balance has been understated by same amount in the financial statement.	Noted, these receipt are not effected on debtor outstanding balance and we will take necessary actions in order to clear deposit control account.	Management should comply and adhere with the accounting standard.
e) Company had failed to present the comparative figures as per accounting Standard (LKAS 1 - Presentation of Financial Statement) for the year 2018 for the actuarial assumption taken for the retirement benefit liability calculation (Note No-16.2). Further the actuarial valuation report for Retirement Gratuity Provision had not been presented to the audit, Even though, the	Noted, we will present the comparative information according to the LKAS -1 and LKAS - 19.	Management should comply and adhere with the accounting standard.

Company had made a provision of Rs 534,762 for the year 2019.

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| f) Company shall not offset income and Expenses unless required or permit by accounting Standard (LKAS 1 - Presentation of Financial Statement). However, the Company had set off the sanitary expenses of Rs 7,923,023 against the sanitary Comfort Service income amounting to Rs. 29,217,461. | Noted, Company will present the sanitary Comfort Service income and sanitary expenses separately according to section 32 of the LKAS 01. | Management should comply and adhere with the accounting standard. |
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**Public Enterprises Circular**  
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**Management Comment**  
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**Recommendation**  
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| a) As per the Public Enterprise Circular No PED 1/2015 (i) - 3.3 and the amendment on 27.10.2016 thereof, "An Officer who entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs 50,000 and monthly fuel allowance applicable to the post. Contrary to that the Managing Director of the Company had obtained a monthly transport allowance amounting to Rs. 169,047 hence, there is an over payment amounting to Rs. 1,428,571 for the period from January to December 2019. | Noted, According to the Circular No. PED 1/2015 (i), transport allowance have not been calculated but company had paid a Transport allowance to the Managing Director with a Board Decision. Further company is coming under F Category. | Management should take steps to comply with public circulars issued on periodic basis. |
| b) According to Public Enterprise Circular No PED 1/2015, Officers who use the entitled vehicle and obtained the transport and fuel allowance shall not be provided with driver or a driver's allowance. Contrary to that the company had paid Rs. 614,843 as the salary for the driver of managing director's personal vehicle for the year under review.   | Noted, this was paid according to board approval given in the inception of the Company which has not been changed  | Management should take steps to comply with public circulars issued on periodic basis. |
| c) According to the section 8.3.8 of the publicenterprise guideline circular no PED/12 donation and/or gift should not be made without the prior approval of the cabinet. Contrary to that the company had made donation of Rs. 1,702,660 with the intervention of the board of director within the year under review.   | Agreed, company had made donation with previous management approval  | Management should take steps to comply with public circulars issued on periodic basis. |
| d) According to the section 5.2.1 of Public Enterprises Circular No.PED/12 dated 02 June 2003, a budget including the following matters had not been prepared and presented for audit.<br>✓ Budgeted income and expenditure account<br>✓ Budgeted balance sheet<br>✓ Budgeted cash flow statement.   | Noted  | Management should take steps to comply with public circulars issued on periodic basis. |
| e) According to the Public Enterprises Circular No. PED 03/2019 dated 09 December 2019, the bonus  | Noted, Company had paid bonus with previous  | Management should take steps to  |

payment for the year 2019 should be based on the audited financial statement. Company had paid bonus amounting to Rs 2,555,063 for the year 2019 without considering above requirement.

management approval.

comply with public circulars issued on periodic basis.

- f.) According to the section 7.4.5 of the public enterprise circular no: PED /12 issued on 02 June 2003, Annual Boards of Survey and Special Boards of Survey should be appointed to carry out verification of fixed Assets and Stores. The entity had not appointed any board of survey to verify the fixed assets in the year under review. Due to this no evidence regarding the existence of the assets purchased for welipenna arcade and head office in financial year 2019. Further any damaged assets items, lost assets items, non-usable assets had not been reviewed by entity.
- Agreed, Actions will be taken in order to prevent it.
- Management should take steps to comply with public circulars issued on periodic basis.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 41,751,235 and the corresponding profit in the preceding year amounted to Rs. 54,595,289. Therefore an deterioration amounting to Rs.12,844,054 of the financial result was observed. The reasons for this deterioration was increase of Administration Expenses by 45 percent when compared to the previous year.

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

The following table indicates a summary of major Income and Expenditure items of the company in the year under review as compared with the preceding year.

	2019	2018	2017	2016	2015
	----- Rs. 000	----- Rs. 000	----- Rs. 000	----- Rs. 000	----- Rs. 000
Revenue	108,413	97,836	99,807	83,340	77,688
Gross profit	83,390	63,933	61,761	34,488	31,245
Other Operating Income	24,859	17,266	5,610	4,715	4,055
Finance Income	17,801	15,913	14,114	11,004	8,135
Administration Expenses	64,219	44,289	35,394	21,685	14,865
Selling and Distribution Expenses	2,129	8,759	1,918	0	0
Profit After Tax	41,751	54,595	49,370	12,791	19,268

### 2.3 Ratio Analysis

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>Ratios</b>	<b>2019</b>	<b>2018</b>
Gross profit ratio (%)	76.92	65.35
Return on capital employed (%)	7.01	4.29
Current ratio	7.16 :1	6.87 :1
Quick ratio	6.91 : 1	6.63 : 1
Gearing Ratio	9.01 :1	5.39 : 1

### 3. Operational Review

#### 3.1 Unreconciled Balance

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) Negative balance of Rs. 1,459,750 included in the trade payable account coming from last year financial statement had not been rectified until the date of audit.	Agreed, company will go forward through all related documents and will take action accordingly. Further it was observed that company had been paid Rs.5.2 million as a final payment for supply of water to Canowin Arcade from August to November 2016 as per the instruction given by Former Executive Director in 2018.	Management must take steps to rectify the issue and present financial statement
b) Repair charge incurred for Cooling Tower Water Pump of arcade side A & B amounting to Rs.102,452 was capitalized erroneously. Therefore, the asset value was overstated by same amount while the expenditure was understated.	Noted, Actions will be taken to rectify.	Management should be vigilant at time of accounting for payments and show the correct balances in the financial statement.

#### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) The Company had not taken action to recover Rs. 762,356 from two tenants, even though they had vacated the premises in	By an oversight, Company has not institute legal action for the above named Companies. The current Management will take immediate	Management should take steps to recover the dues on time and proper mechanism to avoid the

2017 and 2018.

action to serve Letter of Demands (LOD's) for both Companies and accordingly the legal action will be instituted.

same in future.

b) Company does not have standard rate for per square feet when renting out space to vendors and they used different rates for different vendors at the time of leasing the space, hence, possibilities for errors, misuse and bias exist at time of leasing space in the same site.

Noted, Since Canowin Arcade's inception in 2012, there was no standard rate structure applied for any of the Tenants by Sri Lanka Insurance Resorts & Spas (Pvt) Ltd now known as Canowin Hotels & Spas (Pvt) Ltd. For the Banking Teller Machines, there was a 5% rate increase once in every two years and for the Food Outlets the rate increase was 2.5% applicable every year during their respective tenancy period. Rates stated in the above table was decided by the previous Management of the Company.

Management should introduce the standard rate according to to prominence of the place and implement with approvals of board.

### 3.3 Uneconomical transaction

#### Audit Issue

The company had incurred Rs. 626,390 for staff get-together of the company staffs and their immediate family members without getting the prior approval from board of director.

#### Management Comment

Noted, Previous management had paid

#### Recommendation

Management must get prior approval for such expenditure and any payment beyond circulars must follow the direction of circulars.

### 3.4 Accountability and Good Governance

#### Audit Issue

The company's internal audit division had not been functioning from April 2018.

#### Management Comment

Management has decided to handover internal audit functions of Canowin Hotel and Spas (Pvt) ltd to the auditing staff of Sri Lanka Insurance Cooperation to perform the audit periodically in future.

#### Recommendation

Management should have own internal audit division or if decides to get the service from parent company, it should be with proper written agreement and accounted for the same.