Hotel Developers (Lanka) Ltd -2020

1. Financial Statements

1.1.1 Opinion

The audit of the financial statements of the Hotel Developers (Lanka) Ltd ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020and 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either 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 Audit Scope

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

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

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 2 June 2003	Although the financial statements should be furnished to Auditor General within 60 days after the closure of the financial year, the financial statements for the year 2020 had been submitted to Auditor General on 01 June 2021 and draft annual report had not been submitted.	Answer has not given.	Being furnished the financial statements and draft annual report to Auditor General as prescribed by the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.**918**,107,000 and the corresponding loss in the preceding year amounted to Rs.325,630,000. Therefore a deterioration amounting to Rs.592,477,000 of the financial result was observed. The reduction in room revenue by Rs.858,795,000 and food and beverage revenue by Rs.903,189,000 were the main reason for this deterioration.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
The accumulated loss of the Company as at the beginning of the year under review was Rs.6,937,589,000 and it had been increased up to Rs.7,821,569,000 as at the end of the year under review. Simultaneously, unfavorable working capital of the Company as at the end of the year under review was amounted to Rs.997,068,000.	Answer as not been given.	To accelerate its direction towards profitable venues and managing working capital.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
The Company had applied USD 27 million syndicated loan in year 2014 from Bank of Ceylon and Sampath Bank to finance the refurbishment program of the hotel. However, after negotiating with the above two banks, the Company had applied a fresh loan amounting to USD 30 million in year 2018, from the DFCC Bank by cancelling the above USD 27 million loan. Subsequently, after negotiating with the DFCC Bank, the Company had applied a rupee loan amounting to Rs.2 billion in year 2020 from Peoples Bank by cancelling the above USD 30 million loan and the agreement fees, syndication fees and legal fees aggregating to Rs.17,659,767 and stamp fees and processing fees amounting to Rs.5,665,900 incurred by the Company had been capitalized as cost of the refurbishment program, even though the USD loans had not been obtained.	It would be noted that the cost incurred on the loan agreement was directly related to the refurbishment project and the project had delayed was purely beyond the control of the company. Since the project was in progress, the cost was a legitimate charge to the work in progress. However, instead of keeping the loan agreement in force until the project takes off the ground, the Company having considered the alternatives available explored the possibility of reducing the cost by following the competitive procedure. The change has resulted in a substantial reduction in the interest rate and avoided the risk of exchange rate fluctuation. This action will completely offset the cost included in the work in progress. The project is now ready to be implemented and therefore the capitalization of the borrowing cost is justifiable.	Hence the costs are not related to loans already drawn down and not utilized for the ongoing refurbishment project, it should be considered as expenses for the period it is incurred.