

## **Sinolanka Hotels & Spa (Private) Limited - 2017.**

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The audit of the financial statements of the Sinolanka Hotels & Spa (Private) Limited (“the Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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. My comments and observations on the performance of the company which I consider should be presented to the Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view in accordance with the Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor’s Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Sinolanka Hotels & Spa (Private) Ltd as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **2.1.1 Emphasis of Matter**

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Without qualifying my opinion, I draw attention to following Notes to the financial statements.

Note 2.5 in the financial statements on going concern assumption in the preparation of the financial statements. As stated in the above Note, the approval of the Cabinet of Ministers has been granted on 01 August 2017 (Cabinet decision 17/1613/733/029) for the divestiture of Grand Hyatt Colombo. Also, the company's current liabilities exceed the current assets by Rs. 471,653,072 and as per Note 20 to the financial statements amount of commitment for capital expenditure is Rs. 25,887,629,779 as at 31 December 2017. Further Cabinet Committee of Economic Management have instructed to obtain a bridging loan on 10 January 2018, and accordingly company is in the process of obtaining a loan of US\$ 45.3 million to solve the current insolvency.

Note 21 in the financial statements on contingent liabilities. As stated in the above note arbitration has been established against the Company by Interna Contract Spa (Italy) for cancelling the interior decor contract on 27 March 2015 which was awarded on 07 January 2015, (contract value Euro 28,869,372). Interna Contract Spa (Pvt) Ltd has claimed Euro 20,552,242 for the work done and the loss of profit incurred on execution of the contract. Further claimed to reimburse the cost incurred on arbitration processing as well. On 29 September 2017 arbitration has communicated award a sum of Euro 7,432,062.79 to the claimant. However, the management of the Company has challenged the action filed by the Intrena Contract Spa in commercial High Court of Colombo to enforce the aforesaid arbitral award in Sri Lanka on the basis that the arbitral has no jurisdiction to hear or determine the claims of Interna Contract Spa.

#### **2.1.2 Report on Other Legal and Regulatory Requirements**

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As required by Section 163 (2) of the Companies Act, No. 07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion:

- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
- The financial statements of the Company, comply with the requirement of Section 151 of the Companies Act.

## 2.2 Comments on Financial Statements

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### 2.2.1 Going Concern

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The approval of the Cabinet of Ministers has been granted on 01 August 2017 (Cabinet decision 17/1613/733/029) for the divestiture of Grand Hyatt Colombo. However, as at the balance sheet date the divestiture is in the process and company has commenced the administration process of divestiture and has called expression of interest to invest in the project.

- 2.2.2. Physical verification had not been carried out for material stock remained at site valued at Rs. 34,922,805 which had been included under closing stock of the company as at 31 December 2017.

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

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Instances of Non-compliances observed in audit were given below.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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<p>(a) Public Enterprises Circular No. PED/12 dated 02 June 2003,</p>	
<p>(i) Section 7.4.5</p>	<p>Although Annual Board of Survey should be appointed to carry out the verification of fixed assets, board of survey had not been appointed and verification had not been carried out from 2012 up to the date.</p>
<p>(b) Circular No. PED 03/2016 dated 29 April 2016 issued by the Ministry of Finance</p>	<p>Even though the State Owned Enterprises should not bear the PAYE tax of the employees, PAYE tax of Rs. 1, 293, 504 and Rs. 199,999 relevant for Project Service Manager's salary and attendance fee of the Directors' Board meetings have been borne by the company without deducting from employees' earnings.</p>

- (c) Inland Revenue Act, No. 10 of 2006 (duly amended)
- (i) Section 113 Self-assessed quarterly income tax payments had not been paid on due dates to the Inland Revenue Department for the year of assessment 2017/2018.
  - (ii) Section 120 (a) and (d) The PAYE tax for the months of April and August 2017 had not been remitted by the Company on or before the due date. Further, PAYE Annual Declaration of Employer had not been submitted on or before the due date to the Inland Revenue Department.
  - (i) Section 4 (1) Even though other benefits should be included in the calculation of the PAYE Tax, payments of apartment rent, water, electricity, telephone, cleaning etc. given to the Project Service Manager had not been considered in calculating the monthly PAYE tax payable.
- (d) Stamp Duty (Special Provision Act, No.12 of 2006) Stamp Duty had not been deducted from the salary of the Project Service Manager.

### **3. Financial Review**

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#### **3.1 Financial Result**

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According to the financial statements presented, the operations of the company for the year ended 31 December 2017 had resulted in a pre-tax loss of Rs. 15, 518,955 as compared with the corresponding pre-tax loss of Rs. 42,360,162 of the company for the preceding year, thus indicating the improvement in the financial results of the company by Rs. 26,841,207.

### **4. Operational Review**

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#### **4.1 Performance**

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##### **4.1.1 Planning**

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A corporate plan had not been prepared by the company as required by the Section 5.1 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003.

#### **4.1.2 Operating and Review**

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The following observations are made.

- (a) Although according to a decisions of the Board of Directors, the company had incorporated on 21 December 2011 to construct a hotel project in Colombo, a cabinet approval had not been obtained to invest in the Hyatt Regency Colombo Hotel. Further evidence had not been made available relating to the board meetings regarding the initial administrative process taken place prior to March 2015.
- (b) All previous directors had resigned on 20 January 2015 and a new board of directors had been appointed on 26 February 2015. Accordingly, contrary to the provision of the Companies Act, No. 07 of 2007, the company had operated without a Director Board for 6 days.
- (c) Although the capital working progress of the hotel as at 31 December 2017 was Rs. 17 billion, Cabinet of Ministers had granted approval on 01 August 2017 for divestiting Grand Hyatt Colombo due to insufficient financial strength to complete the balance part of the hotel project, Hence, the objective of the company had not been achieved due to improper planning at the beginning of the project.

#### **4.2 Management Activities**

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The following observations are made.

- (a) A vehicle belonged to the company valued at Rs. 9,600,000 had been handed over to the Ministry of Finance on 30 April 2015 and a receivable vehicle rental income of Rs. 2,222,000 had been shown in the Financial statements as at 31 December 2017. Even though a document signed only by the company had been presented any valied evidence had not been presented to audit to compare the accuracy of the amount.
- (b) Further, the vehicle had been handed over to the company again in March 2017 and it had been disposed on 06 December 2017 without following instructions of the public Finance Circular No.2/2015 dated 10 July 2015.
- (c) Proper stock control system had not been maintained and periodical physical inventory verifications had not been carried out by the company.
- (d) Due to in efficiencies of contract Management, periods of 15 contracts at the total value of Rs. 5,832,029,710 had to be extended without obtaining the approval of Board of Directors.
- (e) It was noted that Inerna Contract Spa (Italy) who was awarded the interior décor contract (Euro 28, 869, 372) has established arbitration case No. 21266/CYK/PTA in Singapore against the company for the cancellation of the said contract and claim Rs. 3.6 bn (Euro 20,552,242) as cost of work done, loss of profit and cost of execution of the contract. Also, the case No. CHC (Civil) 619/2017/ARB has been instituted by

the above company against the Hotels & Spa (Pvt) Ltd in the Commercial High Court of Colombo seeking for the purpose of enforcement of the aforesaid arbitral award in Sri Lanka. The hearing of the case is still in process as at the balance sheet date of 31 December 2017.

## **5. Human Resource Management**

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Although Project Service Manager had been recruited on 14 April 2014 Board approval had not been obtained in this regard.

## **6. Accountability and Good Governance**

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### **6.1 Presentation Of Financial Statements**

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According to the Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, Financial Statements for the year ended 31 December 2017 should be submitted to the Auditor General on or before 28 February 2018. However, the financial statements for the year 2017 had been submitted on 26 April 2018.

### **6.2 Budgetary Controls**

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Updated Annual Budget had not been sent to the line Ministry, the Department of Public Enterprises and the Auditor General as required by the Section 5.2.5 of the Public Enterprises Circular No. PED/ 12 dated 02 June 2003.

### **6.3 Audit Committee**

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As per the Section 7.4.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 Audit Committees for Public Enterprise should meet regular basis at least once in three months, However only two Audit Committee meetings had been held by the company during the year under review.

### **6.4 Procurement Plan**

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According to the Government Tender Procedure 2006 a Procurement Plan had not been prepared by the company.

## 7. **Systems and Controls**

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Deficiencies in systems and controls observed during the course of the audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of the following areas of control.

<b>Areas of Control</b>	<b>Observation</b>
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(a) issuing Invoices	A Proper methodology not being followed for issuing invoices.
(b) Inventory Management	A proper methodology had not been followed to store inventories.
(c) Bank reconciliations	Bank reconciliation statement not being prepared.
(d) Procurement	Company had not maintained A list of registered suppliers for goods and services not being maintained.  purchase requisitions and payment vouchers not being maintained in a serial order.
(e) Posting Journal entries	Journal entries being posted to the accounting system prior to obtaining the approval.