

Canwill Holdings Private Limited -2019

1.1 Opinion

The audit of the financial statements of the Canwill Holdings (Private) Limited (“Company”) and the Consolidated Financial Statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of profit or loss and other 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 comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to the following notes to the financial statements which relates to the subsidiary companies, of Helanco Hotels and Spa (Private) Limited and Sinolanka Hotels and Spa (Private) Limited.

Helanco Hotels and Spa (Private) Limited

Note 2.5 to the financial statements on going concern assumption in the preparation of the financial statements. As stated in the above note, The Board of Directors of the Company have resolved to discontinue the project to construct the Hotel in Hambantota. As a consequence, the hotel construction activities of the company has come to an end. Further, the Ministry of Public Enterprise Development has given their instructions to transfer the company's stake to its shareholders in proportion to their shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01st August 2017. The transfer of shares held by Canwill Holdings (Pvt) Ltd in Helanco Hotels & Spa (Pvt) Ltd should be based on an independent valuation which is in the process as at the reporting date. Hence, the Company has not resolved to liquidate the Company in the foreseeable future. Therefore, the Financial Statements continue to be prepared on the Going Concern basis.

Sinolanka Hotel and Spa Private limited

Without qualifying my opinion, I draw attention to Note 2.7 in the financial statements on going concern assumption in the preparation of the financial statements. As stated in the above note, The Company’s management has made an assessment on the Company’s ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a

going concern. In addition, since the company is state owned and it depends on the Government strategies, given the recent political changes in the country, the management of the company is optimistic with regard to the strategic directions to be issued by the Cabinet of Ministers in support of the continuation of the proposed hotel project.

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 Group 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 Group 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 Group.

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

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 Group'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 Group'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 Group 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 the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company and Group;
- Whether the Company and group have performed according to its powers, functions and duties; and
- Whether the resources of the Company and Group 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.

Public Enterprises Circular -----	Management Comment -----	Recommendation -----										
<p>a) According to the Public Enterprise Circular No, PED 03/2019, employee bonus should be calculated based on audited financial statement of previous year (That is 2018). However, contrary to that the company had paid the bonus on April 2019 even though the date of audit report was 16 May 2020.</p> <p>Though the above circular had further restricted the maximum payment of bonus as Rs. 15,000 per person, one month basic salary was paid as the bonus after obtaining the approval of the board details of over payments are as follows.</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Description -----</th> <th style="text-align: right;">Amount (Rs.) -----</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: center;">-</td> </tr> <tr> <td>Bonus for the year 2018</td> <td style="text-align: right;">3,715,765</td> </tr> <tr> <td>As per circular maximum limit</td> <td style="text-align: right;">495,000</td> </tr> <tr> <td>Over payment</td> <td style="text-align: right;">3,220,765</td> </tr> </tbody> </table>	Description -----	Amount (Rs.) -----		-	Bonus for the year 2018	3,715,765	As per circular maximum limit	495,000	Over payment	3,220,765	<p>Incentive allowance equivalent to one month salary subject to maximum limit of Rs. 200,000 has been paid rather it is to be considered as a bonus as per the approval granted by the board of directors of the company</p>	<p>Management should take steps to follow circulars to avoid unnecessary payment.</p>
Description -----	Amount (Rs.) -----											
	-											
Bonus for the year 2018	3,715,765											
As per circular maximum limit	495,000											
Over payment	3,220,765											
<p>b) As per the Public Enterprises Circular No PED/12 of 2 June 2003, guideline for good governance, guideline number 9.7, Salaries and allowances should be based on approved schemes of recruitment and promotions and no revision would be permitted without the approval of the Secretary to the Treasury. However, the Company had not obtained the approvals for senior management's salaries and did not comply with the requirement.</p>	<p>Agreed with the observation.</p>	<p>Management should take steps to follow circulars and adhere to to the same.</p>										

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 255,178 and the corresponding profit in the preceding year amounted to Rs 18,477,650. Therefore a deterioration amounting to Rs. 18,732,828 of the financial result was observed. The reasons for the deterioration are decrease of Finance income and other operating income.

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 and the preceding four years.

Year	2019	2018	2017	2016	2015
	Rs.	Rs.	Rs.	Rs.	Rs.
Administrative Expenses	9,931,740	8,725,269	7,869,756	8,242,318	9,494,182
Finance Income	9,435,080	25,564,060	38,088,317	14,121,535	10,261,092
Net profit (loss) after tax	(255,178)	18,477,650	165,373,105	63,397,999	(1,080,652)

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.

Ratios	2019	2018
Current ratio	12.06:1	11.21:1
Quick ratio	12.06:1	11.21:1
Gearing Ratio	0.00	0.03:1

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Company does not have board approved Standard Operating Procedure (SOP) for the Recruitment, Selection, Training and Development, Compensation and Benefits, Performance Management, Managerial Relations and Labor Relations for their Human Resources.	Agreed with the observation	Management should develop standards and implement the same with the approvals of board.