

Helanco Hotel & Spa Private Limited - 2019

1.1 Opinion

The audit of the financial statements of the Helanco 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 profit or loss and other 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.

Emphasis of Matter

Without qualifying my opinion, I draw attention to 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 has resolved to discontinue the project to construct the Hotel in Hambantota. As a consequence, the hotel construction activity 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 01 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.

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 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 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 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.

Sri Lanka Financial Reporting Standard (SLFRS) 16	Management Comment	Recommendation
SLFRS 16 - "Leases" requires lessee to recognize all leases on their Statement of Financial Position as lease liabilities with the corresponding Right-of-use assets effective from 1 January 2019. The company had obtained a land for the Construction of Hotels in Hambantota from Urban Development Authority under 99 years lease agreement for a total value of Rs 172,317,838. The company had not recognized the Leasehold land on balance sheet as a Right of use assets and lease liabilities as per the above standard.	Agreed with the observation with regard to recognition of Right of use assets However, leased liability has not been recognized by the company since it has been fully settled as a lump sum.	Management must take steps to comply with the standard.

**Public Enterprises Circular No
PED/12**

Management Comment

Recommendation

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.

No recruitment of employees under Helanco Hotels & Spa (Pvt) Ltd in particular period concerned.

Since the services of holding company share the expenses, management must take steps to comply with the circular and follow the same to subsidiary companies too.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 25,299,887 and the corresponding profit in the preceding year amounted to Rs. 31,848,469. Therefore a deterioration amounting to Rs. 6,548,582 of the financial result was observed. The reason for the deterioration was decrease of other operating Income by Rs.10, 577,783 in the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Revenue, Administrative Expense and the Net Profit/Loss for last four years were as follows.

Year	2019	2018	2017	2016	2015
	Rs.	Rs.	Rs.	Rs.	Rs.
Total Revenue	39,142,280	49,770,092	89,054,257	269,521,228	249,803,774
Administrative Expenses	4,003,549	6,415,872	7,354,115	18,926,521	10,497,440
Net profit/loss after tax	25,299,887	31,848,469	63,498,793	227,498,057	95,160,112.

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	13.33:1	66.07:1
Quick ratio	13.33:1	66.06:1
Return on capital employed	11.51:1	3.78:1

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue

As per the Directives given by the Department of Public Enterprise, The company had given a short term loan of Rs 400 Mn to Sinolanka Hotels & Spa (Pvt) Ltd (Rs 300 Mn transferred on 12 January 2018 and Rs 100 Mn transferred on 18 January 2018) with the interest rate of 8.79 percent without any written agreement with Sinolanka Hotels & Spa (Pvt) Ltd. Even though the company had shown the interest receivable in the financial statement, these amounts had not been settled by Sino Lanka Hotels and Spa Limited even up to the date of audit, details are as follows.

Year	Interest Amount in Rs.
2018	33,915,753
2019	35,160,000
Total	69,075,753

Management Comment

Agreed with the observation.

The grand Hyatt Project being experienced financial distress throughout the period in settling the said loan amount since required financials were not arranged through the proposed loan program or the proposed divestiture program of Grand Hyatt Project. Therefore, the settlement of the loan was not happened in short term basis.

Recommendation

Management must take steps to recover the loan on timely basis and invest same amount to gain higher income to the company.