

Canwill Holdings (Private) Limited – 2020

1. Financial Statements

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 2020 comprising the statement of financial position as at 31 December 2020 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 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 2020 and of their 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 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 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 **Audit Observations on the preparation of Financial Statements**

1.5.1 **Going Concern of the Organization**

Audit Issue -----	Management Comment -----	Recommendation -----
<p>The Board of Directors of Helanco Hotels & Spa (Pvt) Ltd (Subsidiary) 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 the Company, in accordance with the Cabinet Decision No 17/1613/733/029 dated 01 August 2017. The transfer of shares held by company 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.</p>	<p>The said decision of cabinet of ministers in the year 2017 to restructure the ownership of the company that was not executed as at the report date. However, the current management of the company seek necessary directives from line ministry on way forward of the project and the company.</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority for future direction of the project.</p>
<p>The management of Sinolanka Hotels & Spa (Pvt) Ltd (Subsidiary) has made an assessment on the company's ability to continue as a going concern and is satisfied that it has the resource to continue in business for the foreseeable future.</p>	<p>SLIC has been approved to infuse Rs. 6 Bn to continue construction of the project till required balance financials are to be formulated through</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority</p>

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, Cabinet of ministers have granted their approval to recommence the construction activities of the Grand Hyatt Colombo Project at the Cabinet of Ministers meeting dated 08 July 2020. Accordingly, construction works of the project were recommenced during the year 2020 and on-going as at the reporting date. However, government and ultimate parent company have supported financially due to lack of finance.

a proper program of financing. for future direction of the project.

The company is working on a program to infuse USD 175 Mn by way of equity and debt to full completion of the project.

2. Financial Review

The principal activity of the Company is investment promotion in the leisure sector and controlling and monitoring of subsidiary companies of Sinolanka Hotels & Spa (Pvt) Ltd and Helanco Hotels & Spa (Pvt) Ltd as a holding company.

The principal activity of the Sinolanka Hotels & Spa (Pvt) Ltd is engaging in business of hospitality trade, owning Grand Hyatt Colombo which is currently under construction.

The principal activity of the Helanco Hotels & Spa (Pvt) Ltd was to engage in business of hospitality trade, owning Hyatt Regency Hambanthota Hotel. However, the Board of Directors of the company of Helanco Hotels & Spa (Pvt) Ltd has resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. The current Board of Directors is seeking necessary directives from the Ministry of Finance on way forward of Helanco Hotels & Spa (Pvt) Ltd.

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.4,076,470 and the corresponding loss in the preceding year amounted to Rs.255,178. Therefore an deterioration amounting to Rs.3,821,292 of the financial result was observed. The reasons for the deterioration are decrease of the finance income.

2.2 Trend Analysis of major Income and Expenditure items

Revenue, administrative Expenses and the net profit/ loss for the last five years were as follows.

Year	2020	2019	2018	2017	2016
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	Rs.	Rs.	Rs.	Rs.	Rs.
Finance income	1,225,668	9,435,080	25,564,060	38,088,317	14,121,535
Administrative Expenses	6,540,697	9,931,740	8,725,269	7,869,756	8,242,318
Net profit/(loss) after tax	(4,076,470)	(255,178)	18,477,650	165,373,105	63,397,999

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the year under reviews compared with the preceding year are given below.

Ratios	2020	2019	2018
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Increase/(Decrease) in Finance Income	(87.01%)	(63.09%)	(32.88%)
Increase/(Decrease) in Admin. Exp.	(34.14%)	13.83%	10.87%

4. Accountability and Good Governance

3.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
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According to the chapter 5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003, the entity had not prepared a corporate plan.	The company has been currently entrusted to complete the construction of the project and project completion plan is in place which is to be extended as corporate plan as needful.	The company should prepare and implement a corporate plan to achieve its objectives.

3.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
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Annual action plan had not been prepared for the year under review.	Action plan with regard to completion of the project is in place.	The company should prepare and implement an action plan to achieve its annual targets.

3.3 Internal Audit

Audit Issue	Management Comment	Recommendation
According to the section 3.7.5 of Public Enterprises Circular No. PED/12 of 02 June 2003, the internal audit manager responsible to review systems and procedures, to ensure that operations are carried out in a true and fair manner. But the role of the internal auditor of the entity has been limited to conduct a pre audit on the payments and certify the bills/payment vouchers.	From 2015 onwards outsourced periodic internal audit function to a firm of Chartered Accountants by duly following procurement process. They have submitted quarterly reports to the Audit Committee up to 30th June 2018. They were nominated for the year 2019 & 2020 due to suspension of construction activities and subsequent covid19 restrictions not invited for Internal Audit. Will arrange Internal Audit outsource from the year 2022 onwards. Key matters have been brought to the attention of the Audit Committee by the Manager Internal Audit.	The board should ensure that effective functioning of internal audit for the company as an effective management tool to achieve corporate objectives.

3.4 Audit Committee

Audit Issue	Management Comment	Recommendation
According to the section 7.4.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, the audit committee should meet on a regular basis at least once in three months. However, the audit committee meeting had been held only one occasion for the financial year under review.	Due to lockdown, restrictions to gatherings unable to conduct Audit committee meetings on a regular basis. Will strictly comply with in the year 2022	The board should ensure that effective functioning of the Audit Committee in accordance with applicable laws and regulations and best practices.

3.5 Budgetary Control

Audit Issue	Management Comment	Recommendation
According to section 5.2 of Public Enterprises Circular No. PED/12 of 02 June 2003, the entity had not prepared an annual budget for the financial year under review.	Agreed with the observation.	The board should ensure that the effective budgetary control is in place within the company for enabling management to proper control over expenditure of the company.