

Helanco Hotels & Spa (Private) Ltd – 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Helanco Hotels & Spa (Private) Ltd (“Company” for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit and 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Going Concern of the Organization

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>According to the Conceptual Framework of Sri Lanka Accounting Standard, the financial statements are prepared based on the assumption that an entity has a going concern and will continue in operation for the foreseeable future. However, The Board of Directors of the company has resolved to discontinue the project of constructing 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 shareholdings in Canwill Holdings (Pvt) Ltd (the parent company), in accordance with the cabinet decision No. 17/1613/733/029 dated 01 August 2017.</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.</p> <p>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 necessary instructions from the appropriate authority and take necessary actions to resolve this issue.</p> |

Therefore, the company cannot prepare its financial statements based on going concern assumption due to effect of the above cabinet decision and assets and liabilities cannot be present as current and non-current. However the company had present Non-current assets of Rs.166,533,837 in its statement of financial position as at 31 December 2020.

2. Financial Review

2.1 Financial Result

The principal activity of the Company was to engage in business of hospitality trade, by owning Hyatt Regency Hambanthota Hotel. The board of directors of the Company has resolved to discontinue the project to construct the Hotel in Hambanthota in the year 2015. As a consequence, the hotel construction activities of the project have come to an end. However the company seeks necessary directives from the line Ministry on way forward.

The operating result of the year under review amounted to a profit of Rs.13,456,358 and the corresponding profit in the preceding year amounted to Rs.25,299,887 Therefore an deterioration amounting to Rs.11,843,529 of the financial result was observed. The reasons for the deterioration was due to decrease of finance income by Rs.17,525,499 in the year under review due to decrease in policy interest rates.

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 |
|---------------------------|------------|------------|------------|------------|-------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Total Revenue | 21,624,281 | 39,142,280 | 49,770,092 | 89,054,257 | 269,521,228 |
| Administrative Expenses | 3,918,547 | 4,003,549 | 6,415,872 | 7,354,115 | 18,926,521 |
| Net profit/loss after tax | 13,456,358 | 25,299,887 | 31,848,469 | 63,498,793 | 227,498,057 |

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the last three years were as follow.

| Ratios | 2020 | 2019 | 2018 |
|---------------------------------------|---------|---------|---------|
| ----- | ----- | ----- | ----- |
| Increase/(Decrease) in Net assets | 2.02% | 3.95% | 4.03% |
| Increase/(Decrease) in Finance Income | -44.77% | 0.01% | -55.59% |
| Increase/(Decrease) in Admin. Exp. | -2.12% | -37.60% | -12.76% |
| Return on Capital Employed | 1.98% | 3.79% | 4.97% |
| EPS | 0.27 | 0.51 | 0.64 |

3. Operational Review

3.1 Operational Inefficiencies

The following observation was made.

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| As per the directives given by the Department of Public Enterprises, The company had given a short term loan of Rs.400 Mn to Sinolanka Hotels & Spa (pvt) Ltd (Rs.300 Mn transferred on 12 th January 2018 and Rs.100 Mn transferred on 18 th January 2018) with the interest rate of 8.79% without any written agreement with Sinolanka Hotels & Spa (pvt) Ltd. Even though the company had shown the interest receivable of Rs. 88.07 Mn in the financial statement, these amounts had not been settled by Sino Lanka Hotels and Spa limited even up to the date of audit. | Refer to the financial constraints being experienced by Grand Hyatt Colombo Project, no settlement has taken place. As per the project financing program of the Hyatt, the management expect the settlement in early 2022. | The management should follow the proper policy when making intercompany transactions. |

3.2 Idle or underutilized Property, Plant and Equipment

The following observation was made.

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| The Helanco Hotels and Spas (Pvt) Ltd has acquired a land of 3.8 Hectare by investing Rs. 177.97 million from Urban Development Authority on lease basis. However, the purchased land had not been used for any useful purpose. | Current management of the company seek necessary directives from line ministry on way forward of the project and the company. | The management should make necessary actions to make use of this property for the intended purpose or any other useful purpose until such intended purpose. |

4. **Accountability and Good Governance**

4.1 **Annual Action Plan**

The following observation was made.

| Audit Issue | Management Comment | Recommendation |
|--|------------------------------|--|
| ----- | ----- | ----- |
| No Annual Action Plan had been prepared by the entity. | Agreed with the observation. | The company should prepare and implement an action plan to achieve its annual targets. |

4.2 **Internal Audit**

The following observation was made.

| 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 is 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 had been limited to conduct a pre audit on the payments and certify the bills and 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. |