

## **Sinolanka Hotels and Spa (Pvt) Ltd - 2021**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Sinolanka Hotels and Spa (Pvt) Ltd (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the 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 give a true and fair view of the financial position of the Company as at 31 December 2021, 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 2.7 in the financial statements on going concern assumptions 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, Cabinet of Ministers has granted their approval to recommence the construction activities of the Grand Hyatt Colombo Project at the cabinet of ministers meeting dated 08 July 2020. Further, based on the Cabinet of Ministers approval dated 03 January 2022, the management of the company is working on arrangement of USD 175 Million project finance by way of USD 25 Million equity and USD 150 Million debt capital.

#### **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 intend 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 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 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

### 1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
<p><b>LKAS 16 - Property plant and Equipment</b></p> <p>As per the paragraph 16 of the standard, the cost of an item property plant and equipment comprises, any cost directly attributable to the assets. However, Director's remuneration, Managing Director's fuel allowance and vehicle maintenance expenses had been capitalized to the Capital Work in Progress. Therefore, the Capital Work in Progress had been overstated by Rs. 11,430,548 for the year under review.</p>	<p>Agreed with LKAS 16 in recognizing the cost of PPE &amp; any cost directly attributed for PPE &amp; project, such expenses can be capitalized. Based on the reasonable cost allocation basis, cost of human capital has been allocated as 10% for parent company (Canwill Holdings Pvt Ltd) ,10% for expenses under Sinolanka &amp; balance 80% under CWIP of Sinolanka.</p> <p>The members of the Board of Directors of Sino Lanka Hotel &amp; Spa are solely engaged in rendering their advice &amp; guidance by giving directions to the Management for the Grand Hyatt project &amp; all fees &amp; remunerations paid for their services are charged to CWIP as these are cost directly attributable for the said project. Company has been recognized such expenses under CWIP from the inception during the construction is in progress (other than period of suspension).</p>	<p>The company should capitalize expenses in accordance with the provisions of the standard.</p>

### 1.5.3 Going Concern of the Organization

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>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, 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. Further, based on the cabinet of minister approval Ref 21/2278/306/100 dated 01 January 2022, the management of the company is working on arrangement of USD 175 Million project finance by way of USD 25 Million equity and USD 150 Million debt capital. However, the continuous support of the Sri Lanka Insurance Corporation Limited (Ultimate parent) or the government will be required to continue the construction activities of the Grand Hyatt Colombo Project.</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 a proper program of financing.</p> <p>As per Cabinet mandate SLIC needs to fund LKR 6 Bn towards the project, However, only LKR 2 Bn has been infused thus far and LKR 2Bn is pending consideration from ordinary share issue done on 10th June 2021.</p> <p>The D/E loan for USD 175 Mn is not forthcoming from the point of CBSL announcing "preemptive debt default status" on 12th April 2022.</p> <p>In view of the above circumstances, we are awaiting for directives from the Ministry of Finance and Treasury on the way forward of the Project</p> <p>As of date the project has limited funds to manage recurrence expenses, upkeep and maintenance of the completed work and payroll up to December 2022, we have made numerous request to get a directive on 100% divestment from line ministry.</p> <p>As per Board Paper ref: SNHS/2022/21 dated 13th October 2022 and subsequent Board minute ref 2022-14 dated 20th October 2022 Item 5 which discusses the current Grand Hyatt Project status in detail, Board of Directors unanimously decided taking into account the current stressful economic background, deteriorating cash flow situation, funds not made available by SLIC and cabinet of ministers approved debt/equity funding option not forthcoming. Seek Cabinet approval to proceed with 100% divestment as early as possible to avoid further cost to the company from unsettled liabilities.</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority for future direction of the project.</p>

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 760,645,501 and the corresponding loss in the preceding year amounted to Rs193,289,884. Therefore, an improvement amounting to Rs. 953,935,385 of the financial result was observed. The reason for the improvement is revaluation surplus of capital work in progress.

### 2.2 Trend Analysis of major Income and Expenditure items

Year	2021 Rs.	2020 Rs.	2019 Rs.	2018 Rs.	2017 Rs.
Finance Income	28,749,233	10,464,970	11,041,814	10,339,498	81,954,784
Percentage Increase/ (Decrease) in Finance Income	175%	-5%	7%	-87%	31%
Administrative Expenses	81,210,002	131,209,337	178,337,425	81,228,313	99,427,238
Percentage Increase/ (Decrease) in Administrative Expenses	-38%	-26%	120%	-18%	-13%
Net profit/loss after tax	760,645,501	(193,289,884)	(5,133,182,782)	(202,725,525)	(29,768,795)
Percentage Increase/ (Decrease) in Net profit/loss after tax	-494%	-96%	2,432%	581%	-41%

### 2.3 Ratio Analysis

Ratios	2021	2020	2019
Project Completion Ratio	52%	36.84%	36.74%
Delay charges to Capital WIP	4.67%	5.61%	5.61%

### 3. Operational Review

#### 3.1 Uneconomic Transactions

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The company has incurred Rs. 913,174,853 as project prolongation cost due to project management inefficiencies.	Completion of the project has been delayed on financial constraints being experienced by the company and as a result prolongation cost is incurring which are unavoidable in the project of this nature.	The management should ensure that sufficient inflow of funds before awarding contracts which will enable for avoiding unnecessary cost of this nature.

#### 3.2 Identified Losses

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Physical verification of assets had been carried out by the committee appointed by management to verify assets as at 31 December 2021. However, assets valued at Rs. 4,378,181 and 287 items had not been physically verified. Further, the necessary actions had not been taken in this regard.	Company is in the process re-verifying the items that was misplaced or damaged. Final report will be directed for the consent of the Board of Directors shortly. Furniture & fixtures have been fully depreciated & may not in usable condition & may have removed as salvage. Some of the furniture's had been moved from different locations when the company's office was shifted time to time & there could be damages in the process which cannot be usable.	The management should ensure the accuracy of annual asset verification, identify the reason for variances & make required adjustment in accordance with the applicable laws and regulations.

#### 3.3 Delays in Projects or Capital Work

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Under extraordinary Gazette No. 1771/18 of 15 August 2012, the company has started a project to construct and operate a 475 roomed city hotel with 90 serviced apartments at No. 116, Galle Road, Colombo 03 with total investment of USD 158,890,000 (Rs.18.5 Bn). According to the above gazette, the commencement date of the project was 19 July 2012 and the implementation and commencement of commercial operations scheduled within 24 months from the commencement of the project. However, the project has not completed as yet. According to the cabinet decision No. 20/1042/204/050-I dated 10 July 2020,	The reasons for delays and the impact thereon have been duly notified to the respective government authorities. Since this is a company where depend on the government policy decisions, the management of the company follow the directions of the line ministry on way forward.	The management should complete the project within the time frame given for enabling investors to get expected return from their investments and avoid increase of project cost.

estimated total cost of the project approximately Rs 60 billion. The cabinet has decided, a partial completion of 16 levels together with level 31 to operate as a fully- fledged hotel with 236 rooms out of the 458 rooms. Phase 2 would include completing balance 236 rooms and 100 service apartments. The target completion date of the first phase was August 2021. However, the delay of six (06) years and five (05) months had been observed for the year under review from the original project completion date of 19 July 2014.

Once again with current stress economic conditions, the project is on hold and await direction from the Cabinet of Ministers for the way forward and to divest. Project is scaled down since 1st July 2022.

### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) An approved cadre and an approved organization chart had not been available for the company in accordance with the section 9.2(b) of the Public Enterprises Circular No: PED/12 dated 02 June 2003.	Ex Manager HR has developed an Organization Structure and to be presented to the Board.	
(b) An approved scheme of recruitment & promotion had not been available for the entity in accordance with the section 9.3.1 of the Public Enterprises Circular No: PED/12 dated 02 June 2003.	HR Position is vacant and all recruitment frozen until further notice.	The management should comply with the provisions of the circular and practice good governance principles in the company.
(c) As per the section 9.7 of the Public Enterprises Circular No: PED/12 dated 02 June 2003, salaries and allowances should be based on approved schemes of recruitments. However, it was noted that the entity had no proper procedure to decide pay structure for the employees.	HR Position is vacant and all recruitment frozen until further notice.	

#### **4. Accountability and Good Governance**

##### **4.1 Corporate Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The company had not prepared a corporate plan in accordance with the Section 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	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 strategic objectives.

##### **4.2 Annual Action Plan**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The approval of the board of directors had not been obtained for the action plan prepared for the year 2021.	Action plan with regard to completion of the project is in place.	The company should obtain approval for the action plan at the beginning of the year and implement to achieve its annual targets.

##### **4.3 Internal Audit**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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 payment vouchers.	From 2015 onwards under Canwill Group outsourced periodic internal audit function to a firm of Chartered Accountants. Based on the annual Internal Audit Plan, quarterly reports submitted to the Audit Committee up to 30th June 2018. Even they were nominated for the year 2019, 2020 & 2021 due to suspension of construction activities and subsequent covid19 restrictions not invited for Internal Audit. Manager Internal Audit review the existing Internal Control system & procedures and any deficiencies brought to the attention of the Audit Committee. Further he review & report the status of previously highlighted areas to the Committee. Continue this process currently with slow-down of construction works due to issues of project financing. Will strength Internal Audit activities with restart of construction activities.	The board should ensure that effective functioning of internal audit for the company as an effective management tool to achieve corporate objectives.



#### 4.4 Audit Committee

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the section 7.4.1 of the Public Enterprises Circular No. PED 12 issued on 02 June 2003, the audit committee should meet on a regular basis at least once in three months. However, during the year 2021 only one audit committee had been held by the company.	Agreed with observation.	The board should ensure that effective functioning of the Audit Committee in accordance with applicable laws and regulations and best practices.

#### 4.5 Budgetary Control

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to section 5.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the entity had not prepared an annual budget for the company.	Agreed with 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.