

Helanco Hotels & Spa (Private) Limited – 2017

The audit of the financial statements of the Helanco Hotels & Spa (Private) Limited for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, 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. My comments and observations which I consider should be furnished to the parliament in terms of 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view in accordance with the Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2 Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 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 construction of Hotel in Hambanthota and the Ministry of public Enterprises 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. Since the independent valuation is in the process as at the reporting date, the company has not resolved to liquidate and therefore, financial statements continue to be prepared on the Going Concern Basis.

2.1.2 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion:
 - I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

2.2 Comments on Financial Statements

2.2.1 Share Capital and Equity

The company's immediate parent undertaking and controlling entity is Canwill Holdings (Pvt) Ltd and the ultimate holding company is Sri Lanka Insurance Corporation Ltd, both companies are incorporated in Sri Lanka and financial statements of the company has been consolidated with the parent company in compliance with Sri Lanka Accounting Standards (SLFRS/LKAS).

2.2.2 Going Concern

The company had been incorporated on 21 December 2011 to construct and operate the Hyatt Regency Hambantota Hotel in Hambantota. Due to financial difficulties the Board of Directors had decided to discontinue the construction of the hotel in August 2015. Even as at the date of the financial statements the Company had failed to find any viable options to commence the activities of the Company. The Ministry of Public Enterprises Development had given their instructions to transfer the Company's stake to its shareholders in proportion on their shareholding in Canwill Holdings (Pvt) Ltd in accordance with the Cabinet Decision No.17/1613/733/029 dated 01 August 2017 which had also not been finalized as at the balance sheet date of the financial statements.

2.3 Non- compliance with Laws, Rules, Regulations and Management Decisions etc.

As per the Section 113 of the Inland Revenue Act No. 10 of 2006, Self-assessed income tax payments had not been paid quarterly on due dates for the year of assessment 2017/2018.

3 Financial Review

3.1 Financial Result

According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in profit before taxation of Rs.81,700,143 as compared with the corresponding profit before taxation of Rs. 250,594,708 for the preceding year, thus indicating a deterioration of Rs.168,894,565 or 67 per cent in financial results. Even though the administrative expenses had decreased by Rs.11,572,406 in the year 2017 compared with the preceding year, decrease of other income and financial income by Rs.141,620,822 and Rs.39,566,149 respectively had mainly affected to this deterioration.

3.2 Financial Position of the Company

The total current assets of the company had decreased significantly by 89 per cent and total equity has decreased by 85 per cent compared with the previous year as a result of releasing funds amounting Rs.3500 million to sister company Sinolanka Hotels & Spa (Pvt) Ltd.

4. Operating Review

4.1 Construction of the Hyatt Regency Hambantota Hotel Project

In achieving of the objectives of Helanco Hotels & Spa (Pvt) Ltd, the following observations are made.

- (a) According to the decisions of Board of directors the company had incorporated on 21 December 2011 to construct a hotel project in Hambantota. No cabinet approval was available to invest a sum of Rs.4 billion in the Hyatt Regency Hambantota Hotel and no evidence were available regarding the board meetings about the initial administrative process taken place prior to March 2015.

- (b) All previous directors had resigned on 20 January 2015 and a new board of directors had been appointed on 26 February 2015. Accordingly, contrary to the provision of the Companies Act, No. 07 of 2007, company had been operated without a Director Board, for 6 days.
- (c) As per the Financial Feasibility report of the project, estimated hotel project development cost was Rs.6,872,000,000 and initial investment made was Rs. 4,000,000,000 which represents 58 per cent of the estimated project cost. Although the project had been planned to complete within 36 months, no evidence were available to support how to fill the balance funding requirement of 42 per cent of estimated project cost.
- (d) After incurring a sum of Rs.177,974,935 and Rs.111,103,548 for acquisition of land and the initial development costs, construction of the project had been abandoned due to insufficient funds. Rest of the funds had been invested in the ongoing construction of the Grand Hyatt Colombo Hotel Project in June 2015 as per a cabinet decision.
- (e) Even though the development process of the Project had been discontinued in August 2015 a sum of Rs.7,354,115 had been incurred for administrative expenses of the project during the year under review. Farther as per board paper No HLHS/2017/08 dated 26 July 2017, average monthly funds requirement to meet the financial obligation had estimated as Rs. 250,000. These expenses can be treated as uneconomical funds outflow from invested funds without the development process of the project.

4.2 Management Activities

The following observations are made.

- (a) The company had agreed with the Urban Development Authority to acquire approximately 9 acres of land at a cost of Rs.177, 974,935 under 99-year lease rent agreement dated 28 August 2014. The following observations are made in this regard.
 - (i) According to the section 2 of the above agreement, annual nominal rent of Rs. 50,000 should be paid on or before 10 March in every year, including VAT, NBT and relevant taxes. However The annual ground rent for 99-years amounting Rs. 4,950,000 had been paid in once without being paid attention for discounting the future cash flows, for the time value of the money according to the section 3.2 of the agreement.
 - (ii) According to the aforesaid agreement constructions of the hotel should be completed within stipulated time frame of 36 months. However, company had failed to comply with the said requirement. Accordingly, Urban Development Authority had sent a letter on 16 November 2016 to cancel the aforesaid lease agreement due to non-development of the land and the entity had requested UDA on 24 November 2016 to revised the period with effect from 01 April 2017 up to 31 March 2020. However, there was no any viable proposal to commence the construction until the date of audit 03 May 2018.

- (b) A sum of Rs.2,650,000 had been brought forward in the financial statements as receivable vehicle rent income relating to a vehicle rented out to the Ministry of Finance. However, the available haring agreement dated 16 June 2015 had not been signed by an authorized representative of the Ministry of Finance and as per the said agreement the monthly rental was Rs.100,000. Further actions had not been taken to get recovered the said income even up to the end of the year under review.

4.3 Controversial transactions

A sum of Rs. 40,000,000 and Rs. 8,000,000 had been transferred through bank draft to a private company named Jaysons Reality (Pvt) Ltd on 13 October 2014. According to the narration of the payment voucher, money had been transferred as an advance payment for acquisition of property on behalf of Nilyan Hotels & Spa (Pvt) Ltd. No property had been acquired on behalf of Nilyan Hotels & Spa (Pvt) Ltd. Further, money had been deposited back through a HSBC Cheque dated 16 December 2014 for Rs. 40,000,000 and HSBC Cheque dated 30 December 2014 for Rs. 8,000,000 to the commercial bank account of the company. The substance of the above transaction was controversial due to non-availability of the documentary evidence.

5 Accountability and Good Governance

5.1 Audit Committee

Two Audit Committee meetings had been held by the parent company during the year under review for overlooking the affairs of the company.

6 Systems and Controls

Deficiencies in systems and controls observed during the course of the audit were brought to the notice of the Chief Executive Officer of the Company from time to time. Special attention is needed in respect of the following areas of control.

| Area of Control | Weaknesses Observed |
|----------------------------------|--|
| ----- | ----- |
| (i) Recording of Journal Entries | <p>Provisions for impairment of capital working progress amounting to Rs.111,103,548 made in the Financial Statements as at 31 December 2015, had not been posted to the ledger until the end of the year 2017.</p> <p>Journal vouchers had not been prepared and approved prior to post journal entries to the ledger accounts.</p> |
| (ii) Payment Procedure | <p>Journal entries were posted to the accounting system prior to</p> |

obtain the approval.

System does not facilitate the generation of an automatic serial number order for payment vouchers