

Sinolanka Hotels and Spa Private Limited - 2019

1.1 Opinion

The audit of the financial statements of the Sinolanka 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 2.7 in the financial statements on going concern assumption 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, since the company is state owned and it depends on the Government strategies, given the recent political changes in the country, the management of the company is optimistic with regard to the strategic directions to be issued by the Cabinet of Ministers in support of the continuation of the proposed hotel project.

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 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. Non-compliance to Sri Lanka Accounting/Financial Reporting Standards.

Sri Lanka Accounting Standard	Management Comment	Recommendation
<p>a) According to Sri Lanka Accounting Standard “Impairment of Assets (LKAS -36)”, Paragraph 09, an entity shall assess at the end of each reporting period whether there is any indication, that an asset may be impaired. If any such indications exist, the entity shall estimate the recoverable amount of the asset.</p> <p>It is observed that the company had not made any assessments of impairment in relation to its assets at the year-end 31 December 2019. In the absence of a valuation, it was unable to obtain sufficient and appropriate audit evidence confirming that the said asset value has not changed as at 31 December 2019 had a valuation been performed which would have affected the recognized impairment provision of Rs. 100.6 Million.</p>	<p>The company has made an assessment of impairment in April 2019 of which recognized an impairment of Rs.2,865,635,579/- to the financial statement for the period ended 31 December 2019.</p>	<p>Management must take steps to comply with the standard</p>

b) 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 has entered into an agreement dated 16 July 2012 with the Urban Development Authority, to obtain a block of land bearing assessment No. 116, Galle Road, Colombo 03 comprising in extent 0.6057 Hectares together with the partly constructed building thereon, for an annual nominal lease of Rs. 10,000 for a term of period of 99 years for the purpose of constructing and operating a Luxury Hotel Complex. The agreement further provided that the settlement of nominal annual lease for the period of 99 years in one lump sum of Rs. 990,000.

In addition to the aforesaid lease agreement, the Government Valuation Department had determined a value of Rs. 5.0 billion to be paid by the company as full and final consideration to the Secretary to the Treasury in respect of the said property. The Valuation Department further determined that the value attributable to the land on 99 year lease amounted to Rs. 1.228 billion.

The company did not recognize the Leasehold land on the date of financial position as a Right of use assets and lease liabilities.

c) As per the Accounting standard-Presentation of Financial statements (LKAS-01) paragraph 69 - (c)

Contrary to the above standard, Loan amounting to Rs 400 Mn taken

from Helanco Hotels & Spa (Pvt) Ltd with interest rate of 8.7 percent (Rs 300 Mn transferred on 12 January 2018 and Rs 100 Mn transferred on 18 January 2018) had been shown as short term loan under current liability in Financial Statements.

The company has recognized the leasehold land as a Right of use assets in note No. 11 to the financial statements and leased liability has not been recognized since it has been fully settled as a lump sum.

Management must take steps to comply with the standard.

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 arrange through the

Further, the Company had not settled this loan or the interest of the same to Helanco Hotels and Spa Private Limited from the inception; Details of the loan interest payable are as follows.

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

proposed loan program or the proposed divestiture program.

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.

Management must take steps to show right figures in right account to maintain the uniformity at time of preparing financial statement. And steps should be taken to settle long outstanding short term loan on timely basis.

1.6 Non Compliance with Laws, Rules, Regulations and Management Decisions etc.

Public Enterprises Circular No PED/12	Management Comment	Recommendation
<p>a) 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. The Company had not obtained the approvals for senior management's salaries and did not comply with the requirement.</p>	<p>No recruitment of employees under Sinolanka Hotels & Spa (Pvt) Ltd in particular period concerned.</p>	<p>Since the service of holding company shares the expenses, management must take steps to comply with the circular and follow the same to subsidiary companies too.</p>
<p>b) According to the section 7.4.5 of the public enterprise circular no: PED /12 issued on 02 June 2003, Annual Board of Survey and Special Board of Survey should be appointed to carry out verification of fixed Assets and Stores. The company had not appointed any board of survey to verify the fixed assets for the year under review.</p>	<p>Agreed with the observation. The company has done the verification of fixed asset. However, appointment of the said board of survey would be executed as compliance to the said PED circular.</p>	<p>Management should take steps to adhere to the circulars.</p>

- c) According to the section 5.2.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003; a budget including the following matters had not been prepared and presented for audit.
- As the project existed in particular period on its proposed divestiture program, the management of the company has been worked in the direction of such a divesting arrangement and further estimations have not been performed accordingly.
- Management should take steps to adhere to the circulars.
- ✓ Budgeted income and expenditure account
 - ✓ Budgeted balance sheet
 - ✓ Budgeted cash flow statement.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 3,167,235,275 and the corresponding loss in the preceding year amounted to Rs 202,725,525. Therefore a deterioration amounting to Rs. 964,509,750 of the financial result was observed. The reasons for the deterioration are increase of finance expenses and administrative expenses.

2.2 Trend Analysis of major Income and Expenditure items

The following table indicates a summary of major Income and Expenditure items of the company in the year under review and the preceding Four years.

Year	2019	2018	2017	2016	2015
	Rs.	Rs.	Rs.	Rs.	Rs.
Administrative Expenses	139,094,626	81,228,313	99,427,238	114,182,828	77,347,552
Finance Expenses	101,535,458	33,915,753	-	-	-
Net loss after tax	(3,167,235,275)	(202,725,525)	(29,768,795)	(50,659,905)	29,330,349

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	0.15:1	0.17
Quick ratio	0.12:1	0.07
Gearing Ratio	0.02:1	0.02