

## **Sinolanka Hotels & Spa (Private) Limited - 2020**

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### **1. Financial Statements**

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#### **1.1 Opinion**

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The audit of the financial statements of the Sinolanka Hotels & Spa (Private) Limited (“Company”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of 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 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**

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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**

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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

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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 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 resource 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 had 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, the financial support of the Sri Lanka Insurance Corporation Limited (Ultimate Parent) or the government will be required to continue to construction activities of the Grand Hyatt Colombo Project due to lack of finance.</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>The company is working on a program to infuse USD 175 Mn by way of equity and debt to full completion of the project.</p>	<p>The management should take appropriate actions to coordinate with the appropriate authority for future direction of the project.</p>

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

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Management Comment -----	Recommendation -----
<p>Section 7.4.5 of the Public Enterprise Circular No: PED/12 issued on 02 June 2003</p>	<p>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 board of survey to verify the fixed assets for the year under review.</p>	<p>Verification of fixed assets has been conducted through the employees of accounts division and preparation of fixed assets register is in progress.</p>	<p>The management should ensure that annual asset verification had been carried out in accordance with the applicable laws and regulations.</p>

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 193,289,884 and the corresponding loss in the preceding year amounted to Rs. 5,133,182,782.

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

Year	2020	2019	2018	2017	2016
	Rs.	Rs.	Rs.	Rs.	Rs.
Other income	6,695,447	1,540,778	1,505,756	7,981,359	9,136,541
Finance Income	10,464,970	11,041,814	10,339,498	81,954,784	62,686,125
Administrative Expenses	131,209,337	178,337,425	81,228,313	99,427,238	114,182,828
Net profit/(loss) after tax	(193,289,884)	(5,133,182,782)	(202,725,525)	(29,768,795)	(50,659,905)

### 2.3 Ratio Analysis

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

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
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 Delays in Projects or Capital Work

Audit Issue	Management Comment	Recommendation
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).	The reasons for delays and the impact thereon have been duly notified to the respective government authorities.	The management should complete the project within the time frame given for enabling investors to get expected return from their

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, 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 will be August 2021. However the delay of five (05) years and five (05) months had been observed for the year under review from the original project completion date of 19 July 2014.

Since this is a company investments and avoid where depend on the increase of project cost. government policy decisions, the management of the company follow the directions of the line ministry on way forward.

#### 4. Accountability and Good Governance

##### 4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
According to the chapter 5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the entity have 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 strategic objectives.

##### 4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
No Annual action plan has been prepared by the entity 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.

#### 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.	<p>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 &amp; 2020 due to suspension of construction activities and subsequent covid19 restrictions not invited for Internal Audit.</p> <p>Will arrange Internal Audit outsource from the year 2022 onwards.</p> <p>Key matters have been brought to the attention of the Audit Committee by the Manager Internal Audit.</p>	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 Public Enterprises Circular No. PED/12 of 02 June 2003, This committee should meet on a regular basis at least once in three months. However, the Audit Committee meeting was held only one time for the year under review.	<p>Due to lockdown, restrictions to gatherings unable to conduct Audit committee meetings on a regular basis. Will strictly comply with in the year 2022</p>	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 and monitored the budget on regular basis.	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.