

1.1 Opinion

The audit of the financial statements of the Canwill Holdings (Private) Limited (“Company”) and the Consolidated Financial Statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2018 and of their financial performance and 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 the following notes to the financial statements which relates to the subsidiary companies, of Helanco Hotels and Spa (Private) Limited and Sinolanka Hotels and Spa (Private) Limited.

Helanco Hotels and Spa (Private) Limited

- 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 project to construct the Hotel in Hambantota. As a consequence, the hotel construction activities of the company have 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 shareholding in Canwill Holdings (Pvt) Ltd (Parent Company), in accordance with the Cabinet Decision No. 17/1613/733/029 dated 01st August 2017. The transfer of shares held by Canwill Holdings (Pvt) Ltd in Helanco Hotels & Spa (Pvt) Ltd should be based on an independent valuation which is in the process as at the reporting date. Hence, the Company has not resolved to liquidate the Company in the foreseeable future. Therefore, the Financial Statements continue to be prepared on the Going Concern basis.

Sinolanka Hotel and Spa Private limited

- Note 2.6 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, approval of the Cabinet of Ministers was granted on 01st August 2017 (Cabinet decision No. 17/1613/733/029) for the divestiture of

Grand Hyatt Colombo (GHC) hotel and to call for Express of Interests (EOI) from local and international advisers with prior international experience in marketing real estate and select a transaction adviser after following due tender process.

Further, Cabinet Committee of Economic Management (CCEM) instructed the National Agency for Private Public Partnership (NAPPP) on 10th January 2018 to assist the company to obtain bridging loan from bank for the purpose of honoring the current contracts entered into with contractors and to avoid prolongation cost, pending completion of the divestment process. Accordingly company is on the process of obtaining loan of US\$ 12 million and which will in return solve the current insolvency. The proposed restructuring program would change only the shareholding structure of the company, hence the financial statements were prepared on the basis of going concern in the foreseeable future and does not intend to liquidate.

- Note 22 in the financial statements on contingent liabilities. As stated in the above note Arbitration was established against the Company by Interna Contract Spa (Italy) who was awarded the interior décor contract (contract value Euro 28,869,372) and which was subsequently terminated by the Company by a letter dated 27th March 2015. Interna Contract Spa (Italy) has claimed Euro 20,552,242 for work done, loss of profit and costs incurred on execution of the contract. In addition, Interna Contract Spa (Italy) has claimed for costs incurred on arbitration processing to be reimbursed as well. The award of the aforesaid arbitration officially communicated by the tribunal on 29th September 2017. In terms of the arbitration award a sum of Euro 7,432,062.79 has been awarded to the claimant.

The management of the company has challenged the action filed by Interna Contract Spa in Commercial High Court of Colombo to enforce the aforesaid arbitral award in Sri Lanka on the basis that the arbitral tribunal has no jurisdiction to hear or determine the claims if Interna Contract Spa. And also the company of the view that the claim awarded to Interna Contract Spa cannot be sustained as the controversial agreement entered between the Company and Interna Contract Spa (Italy) on 07th January 2015 (day before the Presidential Election) was against the public policy of the country. Based on the above information no provision has been made in the financial statements in respect of the claim by Interna Contract Spa (Italy).

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 Group 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 Group 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 Group.

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 the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company and Group;
- Whether the Company and group have performed according to its powers, functions and duties; and
- Whether the resources of the Company and Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Company had not made provision for five expenses amounting to Rs. 389,840 in 2017. Hence, company had not complied with LKAS 37 and it was settled and charged for the profit and loss account in the year under review.	Agreed with the observation.	Should comply with the Standard.

1.6 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Company has borne the PAYE tax on Performance Management and Construction Management (PMCM) allowance from October 2016 to October 2018, which amounted to Rs.2, 624,170 for employees and not complied with circular No. PED 03/2016, dated 29 April 2016 issued by the Ministry of Finance.	Agreed with the observation.	Should comply with the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 18,477,650 and the corresponding profit in the preceding year amounted to Rs. 165,373,105. Therefore a deterioration amounting to Rs. 146,895,455 of the financial result was observed. The reason for the deterioration is decrease of the Dividend Income in the year under review.

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, as compared with the preceding year.

Year	2018	2017
	Rs.	Rs.
Finance Income	25,564,060	38,088,317
Other Income	8,833,840	200,000,000
Administrative Expenses	8,725,269	7,869,756
Net profit/ loss after tax	18,477,650.40	165,373,105.08

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	2018	2017
Current assets ratio	11.21	7.07
Quick assets ratio	11.21	7.07
Return on capital employed	0.10	0.88

3. Operational Review

3.1 Human Resources Management

Audit Issue	Management Comment	Recommendation
a) Company had paid Performance Management and Construction Management (PMCM) allowances amounting to Rs. 1,700,000 for four employees without getting the approval from the board.	Agreed with the observation.	Steps should be taken to verify the entitlement.
b) Company had issued the offer letter for PMCM allowance for following employees without mentioning allowance amount, details of such employees and the allowances paid during the year.	Agreed with the observation.	Allowance amount, details of employees and the allowances paid during the year should be mentioned in the offer letters.

Designation	Letter Date	Accepted date	Amount received per month in 2018 (Rs)
It-ELV Coordinator	24/01/2018	02-05-2018	20,000
Quantity Surveyor	24/02/2018	04-11-2018	25,000
MEP-Engineer	23/02/2018	17/04/2018	25,000
Lead Architect	02-08-2018	02-09-2018	50,000

c) Since the Chief Finance Officer (CFO) vacated the post, the accountant and two assistant accountants were granted PMCM allowance. Company appointed a new CFO on 11 November 2016 but still continue the allowance for the accountant and other two assistant accountants.

Agreed with the observation.

Payment of PMCM allowance for the accountant and other two assistant accountants should be stopped.

d) Company had ignored the Guideline for public enterprise and recruited five officers by Managing Director. These officers had never come to the company since their recruitment. But company had paid monthly salary for them from the date of recruitment to until the expiration of their agreement. Details are as follows.

Agreed with the observation.

Should comply with the Guideline.

Position	Recruited Date	Monthly Payment (Rs.)
HR Coordinator	1 November 2015	40,000
Management Consultant	1 st April 2015	100,000
Ministry Coordinator	1 st May 2017	70,000
I.T Coordinator	1 st October 2016	45,000
BOI Coordinator	1 st November 2016	40,000