

## **Ceybank Holiday Homes (Private) Limited – 2017**

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The audit of the financial statements of the Ceybank Holiday Homes (Private) Limited ("Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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 Article 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**

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The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with 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**

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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 misstatement.

The 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 judgment, 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 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 controls. 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**

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### **2.1. Opinion**

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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.

### **2.1.2 Report on Other Legal and Regulatory Requirement**

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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 requirements of the Section 151 of the Companies Act No 07 of 2007.

## **2.2. Comments on Financial Statements**

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### **2.2.1. Un-reconciled and Unidentified Differences**

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A proper procedure had not been maintained to identify the cash received for the reservation, made through Welfare Department. As a result a sum of Rs.1,170,629 had remained as unidentified deposit as at 31 December 2017.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Company had resulted a pre-tax net profit of Rs.2,751,826 in the year 2017 as against to the corresponding pre-tax loss of Rs.151,600 for the preceding year, thus indicating an increase of profit by Rs.2,903,426. Reimbursement of water bills and electricity bills of Ceybank Rests from the Bank of Ceylon during the year under review had mainly affected to this improvement.

### **3.2 Significant Accounting Ratios**

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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.

Ratio -----	2017 -----	2016 -----
<b>Profitability Ratio (Percentage)</b>		
Net Profit Ratio	1.46	(0.32)
Return on Total Assets	5.19	(1.63)
Return on Equity	76.36	(72.53)
<b>Liquidity Ratios –(Number of times)</b>		
Current Ratio	0.89	0.72

Overall performance, liquidity ratios and profitability ratios of the Company had increased in the year 2017 compared with previous year.

#### **4. Operational Review** -----

##### **4.1. Performance** -----

###### **4.1.1 Planning** -----

A Corporate Plan and Action Plan for the year under review had not been prepared by the Company in terms of Section 5.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003.

###### **4.1.2 Operating and Review** -----

- (a) Without achieving the objectives of the Company the Company act as a managing agent of the Bank of Ceylon by managing four BOC resturants, seven holiday homes, twenty three staff quarters and Maharagama Training Institute for the welfare of Bank of Ceylon staff under the agreed management fees.
- (b) The loss of the Ceybank Rest Katharagama had decreased by 68.8 per cent and profit of the Ceybank Rest Anuradhapura had increased by 127.6 per cent during the year under review compared with the previous year due to reimbursement of electricity and water bills amounting to Rs.2,109,942 and Rs.5,387,556 in Katharagama and Anuradhapura respectively from the Bank of Ceylon. Further profit of the Ceybank Rest Nuwara-eliya had decreased by Rs.2,201,926 whilst Glencairn Bungalow in Dickoya had shown significant loss of Rs.752,821 during the year under review compared with the previous year due to poor condition of the building and equipment installed therein.
- (c) General expenses of the Head Office amounting to Rs.11,455,159 had not been allocated to each cost centers.

## **4.2 Management Activities**

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The following observations are made.

- (a) Building rent agreements for Ceybank Rests in Katharagama and Anuradapura had expired on 31 December 2014 and had not renewed since January 2015. Further there was no rent agreement for Ceybank Rest & Holiday Homes in Nuwara Eliya.
- (b) Ceybank Rest Nuwara Eliya had been downgraded from “Grade A” to “A Grade R” by the Tourism Development Authority due to poor condition of the kitchen and drainage system.
- (c) A sum of Rs. 85,058 had to be paid as penalty on water bills and electricity bills due to delay payment.
- (d) The Company’s practice is to hold 10 per cent of the monthly service charge of employees for covering on the replacement cost of actual breakages occurred to equipment in Restaurants. The balance remaining in the above account as at 31 December 2017 was Rs. 3,178,454. However, the Company had not taken actions to distribute above remaining balance among employees in each year. As a result, this balance had been accumulated over number of years. Further, the equipment purchased instead of the breakage equipment by using this fund had not been capitalized and recorded in the fixed assets register.

## **4.3 Human Resources Management**

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As per the Section 9.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, the Company had not obtained the approval for the Cadre from the Department of Public Enterprises even up to the end of the year under review.

## **4.4 Verification of Fixed Assets**

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The external auditor who was appointed by the Auditor General had been appointed by the Company as the service provider for verification of fixed assets belonging to the Ceybank Holiday Homes. The following observations are made in this regard.

- (a) Auditor General’s consent had not been obtained by the company when granting the above assignment.
- (b) Quotations had not been called from several professional service providers to obtain optimum benefit to the company through the competition
- (c) Possibility of deploying the staff of the Company to this assignment had not been considered by the Company whilst the invoice amount of the above mentioned service provider for the said job was Rs.759,268. The scope of the aforesaid assignment had limited to identify Fixed Assets belonging to the Company and prepare a Register of Fixed Assets. But there were many assets belonging to the Bank of Ceylon and Other External parties such as Urban Development Authority which were not covered from the assignment.

- (d) Although the assignment had been started on 04 February 2017 the report had been submitted on 07 March 2018.

## 5. Accountability and Good Governance

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### 5.1 Audit and Management Committee

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As per the Section 7.4.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, it is required to conduct Audit and Management Committee meetings at regular basis at least once in three months. However, the Company had not conducted even a single Audit and Management Committee meeting during the year under review.

## 6. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of Company by my detailed report issued to the Chairman of the Company. Special attention is needed in respect of the following areas of control.

<b>Areas of Control</b>	<b>Observations</b>
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(i) Debtors	- No policy for recognition of bad and doubtful debtors
(ii) Asset Management	- Fixed assets items had not been labeled for identification purposes.
(iii) Accounting system	- The Company had not followed a proper journal entry process and does not maintain of a journal voucher for journal entries posted to the ledger.