

Ceybank Holiday Homes (Private) Limited - 2019

1.1.1 Opinion

The audit of the Financial Statements of the Ceybank Holiday Homes (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 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

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.

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 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendations
(i) It was observed that fully depreciated assets worth of Rs.10,693,132 were included in the fixed assets register. Actions have not been taken by the management to reassess those assets which are in useable condition and take into the financial statements or write off the balance assets which are not in a useable condition after getting consent of the Board of Directors.	Comment Noted. We will make arrangements to write off the not usable condition asset from Financial Statements with the consent of the Board of Directors.	Actions need to be taken to reassess or write off the fully depreciated assets.
(ii) Monthly summaries received to the head office from rest houses are not cross checked with the attached invoices.	We have a practice already to check the monthly summary with the invoice, which will continue.	Recommended to implement a proper control over rest houses' revenue with adequate checking procedures and approving the daily summery with invoices raised from the rest house.
(iii) The revenue which was received as a monthly summary from the rest houses has posted to the accounting system as a bulk without maintaining an invoice listing.	The Company operates manual procedures to recognize revenue. However the Company intends to solve the said issues after introduction of a centralized computerized system. Until then, we have no option but to continue existing procedures.	Recommended to maintain an invoice listing and also reviewed by an authorized person to identify the gaps and duplicate in invoices.
(iv) A centralized reservation system was not available for the company and reservations are doing in different places separately.	The Ceybank Holiday Home is primarily run to provide a welfare service to the Bank of Ceylon staff. As such it is true that we are	It is recommended to introduce a centralized reservation system.

running a very basic reservation system which is sufficient considering the size and volume of our company. However we have taken note of your comment and requested BOC to give us a more advance reservation system.

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| <p>(v) The Company is maintaining inventory records manually in an excel worksheet and it will cause for irregularities, anomalies, manipulation of financial records and as well creates difficulties in recognizing slow moving and obsolete stock values due to absence of aging report.</p> | <p>We follow manual procedure for inventory, which will we thought sufficient considering the volume and size of our Company. We anyway noted your comment and are in the process of communication with the BOC in this regard.</p> | <p>Recommended to implement an inventory module to monitor and control inventory movements.</p> |
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1.6 Cash Management

Audit Issue

There was no proper cash control system connected with daily revenue records in branches.

Management Comment

We have already implemented the controls for the cash collection process and also we hope to further formalize that process, with a new computerized system.

Recommendations

Recommended to implement proper cash control system connected with daily revenue records.

1.7 IT General Controls

Audit Issue

- (i) All the users in the accounting department have been given most of the options including new ledger creation, ledger deletion and JE posting in the system without restricting to a responsible or top managerial person.

Management Comment

Sufficient controls are there to the structure of the Company and we use system audit trials to detect any fraud or error in the computer system. And also we will implement separate control procedures for non-routine ledger creation and JE posting in the future.

Recommendations

Recommended to review user profile/access rights periodically to ensure that no users have excessive privileges and any inactive user accounts.

- (ii) A comprehensive backup policy is unavailable and system backups are taken once a quarter and not stored at an offsite location.

Comment Noted.

The Company will make arrangements to introduce a comprehensive backup policy and also noted to maintain backups in an off-site location.

Recommended to introduce a comprehensive backup policy to delineate the backup process and also to maintain the backups in an offsite location.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 5,276,423 and the corresponding loss in the preceding year amounted to Rs.2,472,389. Therefore, deterioration amounting to Rs. 2,804,034 of the financial result was observed. Decrease of revenue by 13 per cent and increase of finance cost by 664 per cent were the main reasons for the deterioration of the financial result during the year under review. The Easter Sunday attack and bad climate conditions prevailed in the peak time towards the year end were directly affected the occupancy level of all rests and holiday homes and caused to deterioration of the revenue.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/ (Decrease) (Rs.)	Variance %	Reason for the Variance																									
Revenue	(18,246,731)	13	Deterioration of the financial result of the four Ceybank restaurants during the year under review when compare with the previous year were the main reason for the revenue decrease of the year under review.																									
			<table border="1"> <thead> <tr> <th>Restaurant Name</th> <th>Profit 2019</th> <th>Profit 2018</th> <th>Variance Increase/ (Decrease) (Rs.)</th> <th>Variance (%)</th> </tr> </thead> <tbody> <tr> <td>Katharagama</td> <td>(179,907)</td> <td>271,206</td> <td>(451,113)</td> <td>166</td> </tr> <tr> <td>Anuradhapura</td> <td>3,960,893</td> <td>5,084,796</td> <td>(1,123,903)</td> <td>22</td> </tr> <tr> <td>Nuwara Eliya</td> <td>(5,290,526)</td> <td>(1,487,207)</td> <td>(3,803,319)</td> <td>256</td> </tr> <tr> <td>Glencarin Bungalow in Dikoya</td> <td>(2,458,117)</td> <td>(1,944,,892)</td> <td>(513,225)</td> <td>26</td> </tr> </tbody> </table>	Restaurant Name	Profit 2019	Profit 2018	Variance Increase/ (Decrease) (Rs.)	Variance (%)	Katharagama	(179,907)	271,206	(451,113)	166	Anuradhapura	3,960,893	5,084,796	(1,123,903)	22	Nuwara Eliya	(5,290,526)	(1,487,207)	(3,803,319)	256	Glencarin Bungalow in Dikoya	(2,458,117)	(1,944,,892)	(513,225)	26
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Finance Cost	4,575,791	664	Finance cost has increased due to interest expense recognized during the year under review on the lease liability recognized under SLFRS 16.																									

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.

Profitability Ratio (Percentage)	2019	2018
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Net Profit Ratio	(4.4%)	(1.78%)
Return on Total Assets	(10.6%)	(11.0%)
Return on Equity	104.76%	(1031.72%)
Liquidity Ratio (Number of time)		
Current Ratio	0.48	0.75
Quick Ratio	0.40	0.63

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendations
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(i) Written agreements between Bank of Ceylon (BOC) and the company for the maintenance of holiday homes at Trincomalee, Kandy, Kayts, and bachelor's staff quarters of CTI Maharagama and the Executive Tea service were not available.	The Company receives a management fee for 3 Ceybank Rests, 7 Holiday Homes, 22 locations of Staff Quarters, CTI Maharagama and Executive Tea Service. There are currently no written management fee agreement for 3 Holiday Homes, Executive Tea Service and CTI Maharagama. However Company has been made request to the Management of Bank of Ceylon to make necessary arrangements in this regard.	Recommended to enter into a written agreement with Bank of Ceylon.
(ii) A written agreement was not available between the company (Lessee) and Bank of Ceylon (Lessor) for Anuradhapura leasehold building.	Noted and will communicate with the Bank of Ceylon to rectify this.	Recommended to enter into a written agreement with Bank of Ceylon.