

Lake House Property Development (Private) Limited - 2015

The audit of the financial statements of the Lake House Property Development (Private) Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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.

This report is issued in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) 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

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 misstatements.

An 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 risk of material misstatements 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Lake House Property Development (Private) Limited as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Company

No commercial operation had been commenced by the Company even though 30 years had elapsed since its inception in 1985. In the year 2013, the land belonging to the Company which could have been utilized to generate cash flows had been acquired by the parent company making a direct impact on Company's going concern.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net profit of Rs. 671,014 as compared with the corresponding pre-tax net profit of Rs. 1,111,549 for the preceding year, thus indicating a deterioration of Rs.440,535 in the financial results. A significant decrease in interest income during the year under review was the main reason attributed for the deterioration in financial results.

4. Operating Review

4.1 Identified Losses

The following instances were observed.

- (a) A loss of Rs.561,708 had sustained by the Company due to sales of investment worth Rs.14,151,194 before its maturity for Rs.13,589,486.
- (b) A penalty of Rs.40,986 had to be paid by the Company in delayed the payment of taxes during the year under review.

4.2 Management Weaknesses

Although the Company had been incorporated in 1985 with the intention of diversifying into property development business, such business activities had not been commenced even up to the end of the year under review. Further, the primary objectives of the Company had been amended on 01 August 2007 by the Board of Directors as to venture into transport business. However, none of the business had been commenced as planned.