

Ceybank Holiday Homes (Private) Limited – 2016

The audit of the financial statements of the Ceybank Holiday Homes (Private) Limited ("the Company") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. 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 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 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

2.1. Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

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 explanations that were 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 Section 151 of the Companies Act No 07 of 2007.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year under review had resulted in a pre-tax net loss of Rs.151,600 as compared with the corresponding pre-tax net loss of Rs.2,581,162 for the preceding year, thus indicating an improvement of Rs.2,429,562 in the financial results. Increase of revenue by Rs.10,662,208 in the year under review was the main reason attributed for this improvement.

3.2 Analytical Financial Review

3.2.1 Profitability of the Company

The Company's main business activity was to act as a managing agent of the properties owned by the Bank of Ceylon. Accordingly, the Company had managed four restaurants, seven holiday homes and twenty-three staff quarters.

The Following Observations are made on the Profitability of the Company during the year under review.

- (a) The company had incurred a after tax net profit in the years 2012 and 2013. Since year 2014, it had incurred a after tax net loss. However, after tax net loss had decreased by 84 per cent in the year under review when compared to preceding year.
- (b) Ceybank Restaurant, Kataragama had shown a significant loss of Rs.2.2 million in the year under review when compared with the corresponding loss of Rs.0.3 million in the preceding year due to decrease in room reservation income. However, during the period from year 2012 to year 2014, it had shown a profit ranging from Rs.1.6 million to Rs.1.2 million.
- (c) Glencairn Bunglow, Dickoya had been running at loss since year 2013 and the loss had continuously been increased up to Rs.0.7 million or by 481 per cent in the year under review when compared with the year 2013.
- (d) The Ceybank Holiday Homes, Nuwara Eliya and Haputale had shown a net profit ratio of 48 per cent and 43 per cent respectively in the year under review, when compared with the previous year.

- (e) The Company had incurred a loss of Rs.168,309 from the Executive Tea Services provided to the Bank of Ceylon Head Office in the year under review.

3.2.2 Financial Position of the Company

The BOC Management & Support Services (Private) Limited, BOC Property Development & Management (Private) Limited and BOC Travels (Private) Limited were the primary Shareholders of the Company and these Shareholders are fully owned subsidiaries of the Bank of Ceylon. Therefore, the Bank of Ceylon is the ultimate parent of the Company. The Company's financial position for previous four years and the year under review is as follows.

<i>Rs. 000</i>					
Description	2016	2015	2014	2013	2012
Property, Plant & Equipment	3,999	3,585	3,476	3,805	3,333
Financial assets	13,263	12,062	11,322	10,292	9,183
Current Assets	11,289	12,957	10,579	12,654	10,160
Share Capital & Reserve	641	1,106	4,031	4,062	3,840
Non-Current Liabilities	12,217	11,255	7,641	7,076	6,109
Current Liabilities	15,693	16,243	13,705	15,613	12,727

- i. Reserves of the Company had deteriorated by 83 per cent during the period from year 2013 to year 2016 when compared to year 2012.
- ii. The negative value of Net Current Assets of the Company had continuously increased since year 2013 thus indicating that the Working Capital Management of the Company was not at a satisfactory level.

3.2.3 Significant Accounting Ratios

According to the financial statements and information made available for audit, some important ratios for the year under review and the preceding year are as follows.

Ratio	2016	2015
Profitability Ratios (Percentage)	%	%
Net Profit Ratio	(0.32)	(2.19)
Return on Total Assets	(1.63)	(10.23)
Return on Equity	(72.53)	(264.49)
Liquidity Ratios –(Number of times)		
Current Ratio	0.75	0.79

The following observations are made in this regard.

- (a) The negative values of Profitability ratios had shown a positive trend when compared with the preceding year.
- (b) The Current Ratio which is below 01 had been decreased by 5 per cent when compared to preceding year.

4. Operating Review

Performance Review

The Company had been acting as a Managing Agent of properties owned by the Bank of Ceylon for a management fee. However, this had not included in the Memorandum of Article as a Company's objective.

5. Management Activities

Ten per cent of the monthly service charge had been retained with the Company to recover the replacement cost of breakage items with out a proper policy for distribution of unspent balance among employees. Accordingly, Rs.3,051,738 had been accumulated as at 31 December 2016.

6. Accountability and Good Governance

6.1 Corporate Plan

The Corporate Plan had not been prepared by the Company in terms of the Section 5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

6.2 Annual Action Plan

The Annual Action Plan had not been prepared by the Company as per the Public Finance Circular No.01/2014 dated 17 February 2014.

6.3 Audit and Management Committee

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 regular basis at least once in three months. However, the Company had not conducted Audit and Management Committee meetings during the year under review.

7 Systems and Controls

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

Areas of Control -----	Observation -----
(a) Accounting	<ul style="list-style-type: none"> - The Company did not have a proper journal entry process and did not maintain journal vouchers for journal entries posted to the ledger. - Reservation Income had not been recognized at the exact point of generating income. - The Accounts Department had not carried out monthly reconciliation between the restaurants' monthly summary and the general ledger.
(b) Assets Management	<ul style="list-style-type: none"> - Fixed Assets items had not been labeled for the identification purpose.
(c) Stocks Management	<ul style="list-style-type: none"> - Accounting System had not been maintained for inventory .
(d) Debtor Management	<ul style="list-style-type: none"> - There is no proper written management policy for determining provision for doubtful debts against long outstanding accounts receivable.