

Lake House Property Development (Private) Limited -2017

The audit of the financial statements of the Lake House Property Development (Private) Limited (“the 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 flows 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 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 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 qualified audit opinion.

1.4 Basis for Qualified Opinion

- (a) Transactions with regard to income tax expenses and interest income which recorded in the current account maintaining with the parent company amounting to Rs.117,600 and Rs.296,877 respectively had been recognized as operating cash flows and investing cash flows in the statement of cash flows even though no cash flows involved with these transactions during the year under review.
- (b) Instead of maintaining individual accounts, the Company had recorded the transactions aggregating Rs.3,796,876 and Rs.117,600 as debit and credit respectively in the current account maintain with the parent company.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, 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 2017, 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).

2.1.1 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 for qualified opinion and scope and limitations of the audit are as stated above.
- b. In my opinion :
 - Except for the possible effects of the matters described in basis for qualified opinion paragraph, 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.

2.1.2 Going Concern of the Organization

The Company was initially incorporated in 1985 to engage in property development business and its objectives had later been changed in 2007 by venture into new activities of purchases, sell/take on lease or hire motor cars, lorries, busses, vans, taxi cabs, omnibus or any other motor vehicles etc. However, no cash flow had been generated from expected activities for last 32 years. In the meantime, the land which was the only property of the Company had been acquired by the Parent Company in 2013. The Directors of the Company have not considered these matters in assessing the going concern of the Company.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs.281,877 as against the pre-tax net loss of Rs. 316,649 for the preceding year, thus indicating an improvement of Rs.598,526 in the financial results for the year under review. Decrease in expenses of the Company was the main reason attributed for the improvement in the financial results.

3.2 Value Addition

In analyzing the financial results of the Company, the value addition of the Company for the year 2014 was Rs. 1,111,549 and thereafter the value addition has continuously decreased significantly up to the year under review. Accordingly, the value addition of the Company was Rs. 671,014 in the year 2015 and it was of Rs. 281,876 in the year under review after taking into account the staff salaries, taxes to the government and depreciation made for non-current assets.

4. Operating Review

Interest income of Rs.296,877 earned from the loan of Rs.3,500,000 given to the Parent Company was the only income of the Company for the year under review. Out of this income a sum of Rs.83,125 or 28 per cent had been paid as income tax to the Department of Inland Revenue. However, this loan had been settled by the Parent Company on 28 September 2018 through the current account.

5. Accountability and Good Governance

A Corporate Plan, an Annual Action Plan and a Budget had not been prepared by the Company since its inception in terms of provisions in Public Enterprises Circular No. PED/12 of 02 June 2003.