Lanka Rest Houses (Pvt) Ltd - 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Rest Houses (Pvt) Ltd for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report.

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 Responsibility for 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 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 audit 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 audit 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 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 preparation of financial statements

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintain of key accounting records such as drawing of cheques, use of formats, payment vouchers etc. are shown below.

	Audit Observation	Management Comment	Recommendation
(a)	In terms of Financial Regulation 225 (4) of the Democratic Socialist Republic of Sri Lanka, all payment vouchers should be checked and initiated. However, it had not been done so.	Instructions had been given in order to avoid the deficiencies in future.	The Financial Regulations should be followed.
(b)	In some instances, the officers those who given the approval and certifications had not been signed in vouchers. As well, in some instances payees had been approved the vouchers themselves.	Instructions had been given to over come the deficiencies in future.	The approving and certification of vouchers should be done as an essential requirement and segregation of duties should be done.
(c)	In terms of Financial Regulation 264 of the Democratic Socialist Republic of Sri Lanka, the receipts/ bills should be attached to the vouchers. However, it was observed in audit that supporting documents had not been attachedto the vouchers in some instances.	Instructions had been given to avoid such kind of deficiencies in future.	Financial Regulation 264 should be followed.
(d)	In terms of Financial Regulation 225(2) of the Democratic, Socialist Republic of Sri Lanka, Form General 177 should be used for payment of travelling expenses. However, that requirement had not been followed.	Instructions had been given to avoid such kind of deficiencies in future.	Requirement of Financial Regulation 225(2) should be followed.

1.5.2 Non-compliance with the Sri Lanka Accounting Standards (SLPSAS)

Audit Observation	Management Comment	Recommendation
According to the LKAS – 08, prior year adjustments had not been made in the financial statements relating to the property Plant and Equipment, restating the financial statements after being rectified the errors.	Correction will be made in future.	Financial statements should be restated according to the LKAS – 8 and financial statement should be presented as per the standard.

1.5.3 Accounting Policies

Audit Observation	Management Comment	Recommendation
The depreciation expenses for non – current assets had not been calculated according to the depreciation policy of the Company. According to the accounting policy of the Company, the property plan and equipment should be depreciated based on the straight line method. However, the Property, Plant and Equipment had been depreciated based on the diminishing balance method instand of being depreciated them on straight line method.	Depreciation will be calculated based on straight line method and accounts will be corrected.	If change the accounting policies, it should be disclosed in the financial statements. As well, the selected new policy should be more realistic.

1.5.4 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	Without being deposited the daily collection in the year 2018 amounting to Rs.1,327,585 in the income collection account of the Lanka Rest House Limited, that collection had been incurred to daily expenditure of the Maiyangana Rest House. As a result, accuracy and formality of accounting of the income and expenditure of the Maiyangana Rest House could not be ascertained in audit.	Due to the change of political situation in the year 2018, the Board of Directors and Management of the Company had been paralyzed. As a result, due not existing of a Chairman, an authorized person to approve the expenditure was unavailable. Thus, the expenditure had not been	The daily collection of income should not be used for the daily expenditure.

		accounted. However, the expenditure had been approved and accounted in the next year.	
(b)	According to the financial statements of the Company, the fixed deposits and the interest thereon amounted to Rs.38,289,868 and Rs.3,088,826 respectively. However, according to the computations made in audit, it was observed that those balances amounted to Rs.37,423,969 and Rs.3,963,646 respectively.	The corrections will be made when preparing the financial statements of the year 2019.	When preparing the financial statements, the correct balances should be identified by making the adjustments for the differences.
(c)	The interest income receivable amounting to Rs.2,356,843 for the year under review from the fixed deposits matured in the coming year had not been shown in the financial statements.	Corrective actions will be taken in future.	The accrual income for the year under review should be shown in the financial statements.

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

	Audit Observation	Management Comment	Recommendation
(a)	Out of the total debtors, the conformations had not been received relating to debtor balances amounting to Rs.5,786,327.	Action has been taken to obtain the balance confirmations in order to furnish for audit.	Action should be taken to obtain the balance confirmations.
(b)	The debtor balances totaling Rs.4,836,103 were existed for over 5 years without being recovered and evidence relating to confirm the balances had not been made available.	Action will be taken to obtain balance confirmations.	The confirmations should be obtained for the long term unrecovered balances.

1.6.2 Accounts Payables

	Audit Observation	Management Comment	Recommendation
(a)	The confirmations had not been received for the creditor balances amounting to Rs.13,467,486.	Action will be taken to obtain balance confirmations.	Confirmations relating to Liabilities of the creditors should be obtained.

(b)	The payables amounting to Rs.2,638,162 were existed without being unsettled for a long period of time.	Action will be taken to obtain balance confirmations.	The unsettled balances for a long period of time should be confirmed and the balances of which are not further liable, should be written-off to the income.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Audit observation	Non - Compliance	Comment of the Management	Recommendation
Financial Regulation No.177 of the Democratic Socialist Republic of Sri Lanka.	Even though daily collections should be deposited in the bank as early as possible, the Company had not done so.	Instructions had been given informing not to utilize the daily collections for day today expenses and it had also been informed that to deposit the daily collections in the bank on or before 10.00 am of the subsequent date of the collection was made.	Daily collections should be promptly deposited in the bank.

1.8 Financial Management

	Audit Observation	Management Comment	Recommendation
(a)	Even though as per financial regulation 446 (2) the cash book should be written in chronological order, the cash book had not been maintained accordingly. Further, the receipts and payments should be separately recovered and balanced daily. However, the cash book of the Company had not been balanced daily or monthly. Furthermore, although the cash book should be balanced even as at end of the year, it had not been done so even during the period of audit carried out.	The cash book had not been balanced daily so far and instructions have been given to rectify that error in future.	According to Financial Regulation 446(2), the cash book should be kept and it should be balanced daily.
(b)	The cheques had not been issued in serial order and a register had not been maintained relating to the cancelled cheques. Hence, instances of possibility to misplaced the cheques cannot be ruled out in audit.	A register for cancelled cheques has been maintained.	A register for cancelled cheques should be maintained and the cheques should be issued in serial order.

(c)	A formal advance register had not been maintained by the Company in order to record the issuing of advances and settlements.	A advance register had not been maintained in the year 2018.	A formal advance register should be maintained.
(d)	Only one bank reconciliation statement had been prepared for the entire year and the preparation date of the reconciliation and check and certified dates had not been mentioned. As a result, the preparation date of the reconciliation statement could not be ascertained in audit.	Actions have been taken to prepare the monthly bank reconciliation statements since the year 2019 and arrangements have been taken to get the signature of two authorized officers.	The bank reconciliation statements should be prepared for every month and the officers those who prepare the bank statements and check the accuracy of them should be put signatures.
(e)	According to the Financial Regulation 395 (f) the paying officer concerned should bring to the notice of the Accounting officer any delays in the preparation of monthly bank reconciliation statements and take such steps as are necessary to avoid the recurrence of such delays. However, such steps had not been taken by the responsible officers of the Company.	Corrective actions will be taken.	According to the Financial Regulation 395, bank reconciliation statements should be prepared without being delayed.
(f)	When preparing the bank reconciliation statement as at 31 December 2018, it had been stated that the balance as per the cash book as Rs.5,071,094.36. However, the cash book had not been balanced throughout the year. Further, the cash book had not been balanced even as at 31 December 2018.	The cash book had not been balanced daily. Action has been taken to rectify that error now.	The cash book should be daily balanced and the bank reconciliation statements should be correctly prepared.
(g)	A separate bank account had been opened for the Maiyangana Rest House which is directly managed by the Lanka Rest House Ltd. Nevertheless, the bank reconciliation statements for that bank account had not been prepared from June 2018 to the end of the year.	Corrective actions will be taken in future.	The monthly bank reconciliation statements should be prepared for the bank account opened for the Maiyanganaya Rest House.
(h)	According to the bank reconciliation statement prepared for the month of May 2018, a deficit in the deposit amounting to Rs.658,293.94 was observed. Due to not banking of the daily collections by the ex-manager of the Rest House, that deficit was created and action had not been taken to recover the deficit.	It had been inform to recover the deficit.	Prompt action should be taken to enforce the disciplinary actions against the responsible persons for the loss incurred to the Company and to recover the deficit of the bank deposit.

(i)	Actions had not been taken relating to 2 outstanding cheques for over 06 months amounting to Rs.18,308.58 in terms of Financial Regulation 396.	Instructions had been given to make the necessary corrections and adjustments in terms of FR 396 regarding those cheques.	Action should be taken relating to the outstanding cheques for over 06 months in terms of FR 396.
(j)	A register or a list had not been prepared in terms of FR 395 relating to the cheques remitted to the banked but not realized or unbanked cheques received as at end of the year.	Instructions had been given to prepare a register in that regard.	A register should be prepared according to the FR 395.
(k)	Out of the income received by the Company after deducting the expenditure of the Company and administration charges, the payable levy to Local Government Institutions amounted to Rs.22,344,990. Of that amount, the balances over 7 years were remained as unsettled.	Instructions had been given by the Board of Directors to settle the arrears without being delayed.	The payables to the Local Government Institutions should be paid immediately.

1.9 Non – Compliance with Tax Regulations

	Audit Observation	Management Comment	Recommendation
(a)	According to Section 83 of the Inland Revenue Act No.24 of 2017, payee tax of the employees should be remitted before the 15th of the following months. However, the payee tax amounting to Rs.320,142 had not been remitted by the Company as per the said requirement.	Action had not been taken to pay.	Action should be taken to pay the payee tax according to section 83 of the Inland Revenue Act No.24 of 2017, before the 15th of the following month.
(b)	The payee tax report for the year under review had not been furnished to the Department of Inland Revenue on or before 30th April of the Preceding year.	Action had not been taken to pay.	The payee tax deductions made from the employees should be remitted before 30th April of the each year.

2. Financial Review

2.1 Financial Results

The operating result for the year under review amounted to a pre tax profit of Rs.8.37 million and corresponding pre tax profit in the preceding year amounted to Rs.10.98. Therefore a deterioration amounting to Rs.2.6 million of the financial result was observed. Decrease of income by Rs.1.8 million and increase of administration expenditure by Rs.2.3 million were mainly attributed for that deterioration in the financial result.

2.2 Trend analysis of Major Income and Expenditure Items

Income component	2018 (Rs.)	2017 (Rs.)	Difference (Rs.)	Percentage
Rest houses income	5,509,751	7,037,668	1,527,917	21
Surcharges	1,475,377	823,727	651,650	79

(i) The main income component, the Rest Houses income, of the Company had been decreased by Rs.1,527,917 in the year under review. That as a percentage was 21 per cent.

(ii) Compared to the preceding year, the surcharge income of the year under review increased by Rs.651,650 and as a percentage it was 79 per cent.

(iii) Compared to the preceding year, increasing of surcharge income was indicated that the rent income of Rest Houses was not received on due dates and as a result, the surcharge income was increased.

2.3 Ratio Analysis

According to the information provided, some of the significant ratios of the Company for the year under review were shown below compared with the preceding year.

Ratio	Year	
	2018	2017
Gross Profit margin (percentage)	94.58	90.36
Net Profit margin (percentage)	23.38	30.62
Current ratio (times)	0.66:1	0.53:1

The following observations are made in that regard.

(i) Compared to the preceding year, the income was decrease by Rs.1.8 million. However, due to decrease of the cost of sale by Rs.1.4 million or 46 per cent, the net profit ration of 90.36 per cent in the year 2017 was increased up to 94.58 per cent in the year 2018.

(ii) Compared to the preceding year administration expenditure year under review was increased Rs.2.26 million. As a result, the net profit ration of the year under review was decreased to 23.38 per cent from 30.6 per cent in the preceding year.

(iii) Even though the current ration of the Company was increased to 0.66:1 in the year under review from 053:1 compared to the preceding year, the Company had failed to maintain the current ratio at an optimum level.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A fixed asset register had not been maintained by the Company for the property plant and Equipment costing Rs.2,159,023 held as at 31 December 2018.	Action will be taken to prepare a register for Property Plant and Equipment in future.	A fixed asset register should be maintained.
(b)	Rest House Management :		
	(i) Even though a state Company had been established under the Urban Development Authority namely Lanka Rest House Ltd with a view to strength the Rest House Management system, that Company had rented out the Rest Houses on long term basis without following specific procedure. Particularly, without being followed the Government tender procedure to select highest renting values and without evaluating the experience for run the rest houses and financial capacities the rest houses had been rented out.	Without being rented out the houses for personal names the management of the rest houses will only be vested to the companies registered under the Company Act.	When renting out the rest houses on long term basis, the tender procedure should be followed in transparent manner and attention should be drawn to evaluate the experience and financial capacities of the selected companies.
	(ii) When renting out the rest houses on long term basis, the Company had not applied specific duration for renting. Hence, rented out duration of the rest houses were varied from rest houses to rest house.	Currently, the renting out period had not been determined only the basis of rent amount. Attention is drawn to the proposed development and renovation activities in the rest houses. Base on the financial capacities and paper advertisements bidders will be selected in future.	When renting out the rest houses owned by the Company, tender procedure should be followed in transparent manner. As well, the experience and financial capacity of the lessees should be taken into account when selecting them.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
According to the operational information provided only for 7 months of the year 2018	Due to not making of required renovations since	Current operational losses of the Maiyanganaya rest

by the Maiyangana Rest House that directly manage by the Lanka Rest House Ltd, the operational loss of the Rest House was over Rs.1.2 million. This Rest House had been operated incurring operational losses continuously.	the establishment, the rest house was in decayed condition. As well due to the lack of proper management system, the operational and administration cost of the rest house were increased.	house should be converted to a profit making entity by giving special attention to the Rest House.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
According to section 7.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the public enterproses should followed the Government Procurement Guidelines. If separate guidelines are prepared by the entity as per the needs of that entity, the approvals of the Line Ministry and the General Treasury should be obtained for such guidelines. However, the Company had not follow the above instructions with regard to the procurement guideline prepared by the Company as per its requirements.	Comment had not been given.	The approvals of the Line Ministry and the Treasury should be obtained for the procedures and other regulations prepared by the Company.

3.4 Human Resources Management

Audit Observation	Management Comment	Recommendation
Even though new recruitments had been done for the year 2018, the particulars relating to the approved cadre of the Company and new recruitments had not been furnished to audit.	The recruitments had been done as per the instructions given by the Urban Development Authority.	The approved cadre of the Company should be recruited and action should be taken to get the approval for the non – approved recruitments.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Management Comment	Recommendation
According to the Circular No.PED/12 dated 02 June 2003 of the Department of Public Enterprises of the Treasury, the financial statements of the Company for the year 2018 should be furnished to audit before 28 February 2019. However, the financial statements had been furnished only on 05 July 2019.	Comment had not been given.	Action should be taken to follow the instructions in PED/12 Circular.

4.2 Corporate Plan

Audit Observation	Management Comment	Recommendation
A Corporate plan had not been prepared for the year under review.	The Corporate plan had not been prepared.	A Corporate plan should be prepared for the Company.

4.3 Annual Action Plan

Audit Observation	Management Comment	Recommendation
An Action Plan had not been prepared for the year under review.	The Action Plan had not been prepared.	An Action Plan should be prepared for the Company.

4.4 Internal Audit

Audit Observation	Management Comment	Recommendation
The Company had not establish an Internal Audit Division. Although the activities of the Company could be audited through the Internal Audit Division of the Urban Development Authority, it had not been arranged by the Company. Hence, an internal audit had not been conducted for the Company in the year 2018.	An internal audit had not been conducted for the year 2018.	Since there is no an internal audit division to the Company, arrangements should be done to conduct an internal audit through the UDA's internal audit division.

4.5 Management Committee

Audit Observation	Management Comment	Recommendation
The Company had not conducted management committees for the year under review.	Management committees had not conducted.	Action should be taken to conduct the audit and management committees.

4.6 Budgetary Control

Audit Observation	Management Comment	Recommendation
According to paragraph 5.2.4 of the Department of Public Enterprises of the Treasury Circular No.PED/12 dated 02 June 2003, the annual budget should be approved before 3 months of the budgeted year. However, the budget of the Company for the year under review had not been approved.	The budget had not been approved on stipulated time period.	The annual budget should be prepared and the approval should be obtain there to at the Director's Board meeting.