

Ceybank Holiday Homes (Private) Limited - 2020

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Ceybank Holiday Homes (Private) Limited (“Company”) for the year ended 31 December 2020 comprising the Statement of Financial Position as at 31 December 2020 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow 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 2020 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.

Emphasis of matter

I draw attention to Note. 2.9 of the financial statements which indicates the existence of material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. However, the Company’s ultimate parent has agreed to extend financial assistance to the Company, until such time the Company is able to finance themselves. Therefore, the financial statements continue to be prepared on the going concern basis. My opinion is not modified in respect of this matter.

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 intend 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 Audit Scope

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 skepticism 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 Audit Observation on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
(i) Instead of automated system, the Company use manual system for inventory management and record keeping which will increase the risk associated with the inventory management and control.	Noted. The responsibility of inventory management lies with the relevant resident manager of the each rest as we follow the manual procedure for inventory. Given the size and volumes of the company and our unaffordability for centralized system software, we are compelled to follow same. However, at the head office level we monitor the stock levels monthly with a bird's eye view. Until we introduce a new computerized system to the Company, we will take steps to strengthen the controls of the existing manual procedures and minimized the risk associated with inventory.	Recommended to review the existing systems and procedures in relation to inventory management and consider implementing inventory modules to monitor and control inventory movements.

- (ii) The Company has not implemented a centralized control system over the guest houses in order to monitor the activities of the guest houses. Noted, The reservation system we currently use is sufficient considering the size and volumes. We mitigate the risk referred herein by surprise visits from the head office and getting assistance from local Bank of Ceylon officials to keep a track on the caretakers of the Holiday homes. Furthermore Bank of Ceylon is in the process of installing CCTV, which will also help us to monitor the caretakers. It is recommended to introduce a centralized booking system for the guest houses to prevent from fraud risk at the guest house.

1.5.2 Inappropriate Valuation or Estimation

Audit Issue	Management Comment	Recommendation
The Company has fully depreciated assets which are still in use amounting to Rs.10,693,132. The Company has not taken necessary arrangements to reassess the useful life of those assets based on the useable condition.	Noted. We will make arrangements to write off the unusable assets from Financial Statements with the consent of the Board of Directors.	Recommended to reassess the useful life of fully depreciated assets which are still in use.

1.5.3 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation												
(i) The Company did not provide sufficient and appropriate audit evidence to ensure the completeness and accuracy over below revenue which was recognized as income for the months of April and May 2020, when the rest houses were closed due to curfew situation.	As a practice, Revenue will be recognized based on the date on which we initially make the reservation. However, due to the COVID 19 pandemic many reservations have been postponed to a later date upon notification to the relevant Resident Manager. Although we are not aware of it, we have been recognized as income on the initially reserved date.	It is recommended to maintain supporting documents for future reference and also due care should be taken by the management to ensure that implemented controls are operating effectively.												
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Location</th> <th style="text-align: center;">Value (Rs.)</th> </tr> </thead> <tbody> <tr> <td>Anuradhapura</td> <td style="text-align: right;">13,091</td> </tr> <tr> <td>Nuwara Eliya</td> <td style="text-align: right;">177,955</td> </tr> <tr> <td>Kataragama</td> <td style="text-align: right;">13,055</td> </tr> <tr> <td>Dickoya</td> <td style="text-align: right;">4,545</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">208,645</td> </tr> </tbody> </table>	Location	Value (Rs.)	Anuradhapura	13,091	Nuwara Eliya	177,955	Kataragama	13,055	Dickoya	4,545	Total	208,645	<p>However, in order to avoid such mistakes in the future, we will obtain the necessary information from the resident manager and correctly identify</p>	
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the revenue.

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| (ii) | <p>Though the company allows its customers to request a full refund or to postpone the reservation dates due to natural disasters on justifiable situations occur in the country, the Company does not specifically mention the time period to request refund or postpone the reservation date. Therefore non availability of refund policy for special circumstances was observed.</p> | <p>We generally follow the Bank of Ceylon's refund policy as per our company's practice. However, during the Covid lockdown periods we deviated from the policy and gave the choice to the guests to defer the booking or get the refund as was the industry practice during that time which complicated the accounting treatment in reckoning the income to a particular month. However, that was one off situation and it will not be repeated in the future.</p> | <p>It is recommended to maintain proper refund policy which includes all relevant information and approved by the board of directors.</p> |
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1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue -----	Management Comment -----	Recommendation -----
(i)	<p>An irrecoverable festival advance balance of Rs.101,875 was included in the Financial Statements as at the reporting date.</p>	<p>These festival advances amounting to Rs.101,875 are outstanding prior to 2017, when the festival advance was even allowed for employees with less than 5 years' service. As a result when such employees resign without any notice after taking their salary, no payment is due to them (such as gratuity) to recover the festival advance. Now we have changed the policy and only staffs with over 5 years' service are eligible to apply for the festival advance. Therefore, we will obtain necessary approval (board approval) to write off the above amount, as there is no recovery prospect.</p>	<p>It is recommended to provide impairment provision or write off the balance if recoverability is doubtful and implement a proper control to ensure sufficient follow up are in place for receivable balances.</p>

- (ii) A long outstanding overpaid VAT balance of Rs.422,044 was observed as at 31 December 2020. Noted. This has happened due to VAT rate percentage being changed three times during this period. Therefore, we will make arrangement to reclaim the excess amount from the Inland Revenue or else if we fall liable for VAT anytime soon then we will make arrangements to set off. It is recommended to provide impairment provision or write off the balance if recoverability is doubtful.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.33.3 million and the corresponding loss in the preceding year amounted to Rs.5.3 million. Therefore, a deterioration amounting to Rs.28 million of the financial result was observed. Decrease of revenue by 47 per cent was the main reasons for the deterioration of the financial result during the year under review.

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)	Variance %	Reason for the Variance
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	(Rs.)		
Restaurant Income	(30,957,214.00)	(55%)	Drop in restaurant income due to negative macro-economic conditions prevailed after COVID 19 situation prevailed in the country.
Reservation Income	(27,716,663.01)	(56%)	Drop in reservation income due to negative macro-economic conditions prevailed after COVID 19 situation prevailed in the country.
Cost of Sales	(21,686,888)	(36%)	Drop of cost of sales due to decrease of business volume due to COVID 19 situation prevailed in the country.

2.3 Ratio Analysis

According to the financial statements and information made available, certain important ratios of the company for the year under review as compared with the preceding year are given below.

Profitability Ratio	2020	2019
Gross Profit Ratio (Percentage)	41	51
Net Profit Ratio (Percentage)	(53)	(4)
Return on Total Assets	(56)	(10)
Return on Equity	(87)	(105)
Liquidity Ratio (Number of Time)		
Current Asset Ratio (Number of time)	0.19	0.48
Quick Assets Ratio (Number of times)	0.16	0.40

All the ratios of the Company have been deteriorated during the year under review when compare with the preceding year due to increase of net loss during the year under review.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue		Management Comment	Recommendation
It was observed that original and signed management fee agreements are not available for below locations.		Noted. We will rectify this matter in consultation with the Bank of Ceylon.	It is recommended maintaining proper agreements with the relevant party.
Category	Location		
Ceybank Rests	Anuradhapura, Kataragama, Dickoya		
Holiday Homes	Bandarawela, Haputale, Lindula, Trincomalee, Kayts, Nawala		
Executive tea Service	-		
CTI	-		
Maaharagama Head Office	Colombo – Canteen		
Staff Quarters			