

## **Ceybank Holiday Homes (Private) Limited - 2021**

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Ceybank Holiday Homes (Private) Limited (the “Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows 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 report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2021 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. 2.7 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 a 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**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(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 each rest as we follow the manual procedure for inventory. Given the size and volume of the company and our unaffordability of centralized system software, we are compelled to follow the 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 minimize 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 to herein by surprise visits from the head office and getting assistance from local Bank of Ceylon officials to keep track of the caretakers of the holiday homes. Furthermore, the Bank of Ceylon is in the process of installing CCTV, which will also help us 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.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>												
(i) Festival advances include long outstanding balances aggregating to Rs.156,625 which are not recovered as of the reporting date. The employees are already resigned from the company and due to that the recoverability of these advances are doubtful. The age analysis of the irrecoverable festival advances are given below.	These festival advances amounting to Rs.156,625 are outstanding prior to 2020, 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 staff with over 5 years' service is eligible to apply for the festival advance. Therefore, we have made provision for this amount in 2021 and will obtain the necessary approval (board approval) to write off the above amount in the future if there is no prospect of recovery.	It is recommended to write off the balance if recoverability is doubtful and implement a proper control to ensure sufficient follow up are in place for receivable balances.												
<table><thead><tr><th><b>Period</b></th><th><b>Amount (Rs.)</b></th></tr></thead><tbody><tr><td>2000 - 2005</td><td>24,900</td></tr><tr><td>2006 - 2010</td><td>8,100</td></tr><tr><td>2011 - 2015</td><td>44,875</td></tr><tr><td>2016 - 2020</td><td>78,750</td></tr><tr><td><b>Total</b></td><td><b>156,625</b></td></tr></tbody></table>	<b>Period</b>	<b>Amount (Rs.)</b>	2000 - 2005	24,900	2006 - 2010	8,100	2011 - 2015	44,875	2016 - 2020	78,750	<b>Total</b>	<b>156,625</b>		
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2016 - 2020	78,750													
<b>Total</b>	<b>156,625</b>													

- (ii) The trade debtor balance of Rs.1,687,931 includes long outstanding balance of Rs.740,821 which comes since more than three months period. Satisfactory actions have not been taken by the company to recover the long outstanding debtor balances. The age analysis of the debtor balance is given below.

<b>Period</b>	<b>Outstanding Balance (Rs.)</b>
0-30 Days	580,400
31-90 Days	366,710
91-180 Days	16,425
181-365	125,340
More than One Year	599,056
<b>Total</b>	<b>1,687,931</b>

- (iii) A long outstanding overpaid VAT balance of Rs.422,044 was observed as at 31 December 2021. Noted. This has happened due to the VAT rate percentage being changed three times during this period. Therefore, we will make arrangements 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 reclaim the excess amount 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.26.7 million and the corresponding loss in the preceding year amounted to Rs.33.4 million. Therefore, a decrease of loss amounting to Rs.6.7 million was observed. Decrease of administrative expense by 17 per cent was the main reasons for the decrease of the loss 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) (Rs.)	Variance %	Reason for the Variance
Restaurant Income	(6,899,115)	(27)	Rests and Holiday Homes were virtually closed and empty due to COVID restrictions placed from end of April 2021 to October 2021 and it was the main reason for the income decrease.
Reservation Income	(3,036,015)	(14)	
Cost of Sales	(5,098,884)	(14)	This is due to close of rests and holiday homes from end of April 2021 to October 2021 due to COVID restrictions.
Management Fee	1,794,875	11	From November 2020 till April 2021, BOC Head Office canteen was run by the company, for which we received a management fee of Rs.1.8 million which was accounted for the year 2021.
Administrative Expenses	(9,670,390)	(17)	The cessation of the Nuwara Eliya operations in August 2021 resulted in a 6.1 million rupee decrease in administrative expense.

## 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.

Description	Years	
	2021	2020
<b>Profitability Ratio</b>		
Gross Profit Ratio (Percentage)	41	41
Net Profit Ratio (Percentage)	(48)	(53)
Return on Total Assets	(62)	(56)
Return on Equity	(41)	(87)
<b>Liquidity Ratio (Number of Time)</b>		
Current Asset Ratio (Number of time)	0.15	0.19
Quick Assets Ratio (Number of times)	0.12	0.16

Net Profit, Return on Total Assets and Return on Equity Ratios of the Company shows minus figures due to incurring of net loss during the year under review. The Company has failed to maintain adequate liquidity ratios and it may cause for working capital issues of the Company.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
B1/B2 holiday bungalows Nuwara Eliya and Holiday bungalow Kandy are under renovations since 2018 and 2019 respectively. These bungalows had generated Rs.1.4 million worth of income during 2018 and it was observed that the Company is losing such amount of income in every year due to delays of completing renovations.	The B1/B2 holiday Bungalow operations started from May 2022. However, the Holiday bungalow Kandy is still undergoing renovation, for which we have no control.	It is recommended to speed up the renovation and make available the bugloss for the commercial operations.