

## Transactions report of the Lanka Rest Houses Limited - 2022, 2023 and 2024

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The operations of the Lanka Rest Houses Limited (“Company”) for the years from 01 January 2022 to the year ended 31 December 2024 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 and Companies Act, No. 07 of 2007. The financial statements for the years 2022, 2023 and 2024, which were required to be submitted in accordance with Section 150(1) of the Companies Act, No. 07 of 2007, had not been submitted by 31 December 2025. According to the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations which I consider should be report to Parliament appear in this report.

### 1. Financial Statements

#### 1.1 Responsibilities of Board of Directors and Those Charged with Governance for the Financial Statements

Board of Directors 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 determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### 1.2 Non-Submission of Financial Statements

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Although the annual financial statements and draft annual reports should be submitted to the Auditor General within 60 days of the end of the accounting year as per paragraph 6.6 of the manual introduced by the Public Enterprise Circular No. 01/2021 dated 16 November 2021, Lanka Rest Houses Limited has not submitted the financial statements and draft annual reports for the years 2022 and 2023 to the Auditor General so far, and the financial statements for the year 2021 were also submitted for audit with a delay of 02 years and 04 months.	Agree.	Arrangements should be made to submit the financial statements to the Auditor General in accordance with the circular instructions.
(b) The details of the company's assets, liabilities, income and expense items as per the company's last audited financial statements prepared as at 31 December 2021 are given below.		

<b>Assets</b>	<b>Value Rs.</b>
Property, Plant and Equipment	13,156,768
Inventories	60,317
Debtors and Other Receivables	19,124,332

Fixed Deposits	52,967,856
Cash and Cash Equivalent	12,533,700
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<b>Total Assets</b>	<b><u>97,842,973</u></b>
<b>Equity and Liabilities</b>	
<b>Capital and Researves</b>	
Stated Capital	70
Retained Earnings	(32,275,027)
<b>Liabilities</b>	
Trade and Other Payables	65,599,055
Current Account with Urban Development Authority	64,501,732
Tax Payables	17,143
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<b>Total Equity and Liabilities</b>	<b><u>97,842,973</u></b>
<b>Income and Expenditure</b>	
Total Income	30,299,619
Other income	6,012,528
Total Expenditure	<u>38,320,930</u>
Profit Before Tax	(2,008,783)
Tax	-
Profit After Tax	(2,008,783)

## 2. Operational Review

### 2.1 Receivable Accounts

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the draft financial statements presented by the company to the Board of Directors, the balance of rest house lease rental income receivable as at 31 December 2024 was Rs.36.59 million.	Agree.	Action should be taken to recover the relevant balance promptly.

## 2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

Reference to Laws, Rules and Regulations	Non-compliance	Management Comment	Recommendation
(a) Section 133 of the Companies Act No. 07 of 2007	Although the Board of Directors is required to convene an annual meeting once every calendar year, annual general meetings have not been held since the company was incorporated.	Lanka Rest Houses Ltd outsources its corporate secretarial duties to a private firm on a monthly fee basis. It has been reported that difficulties exist in conducting Annual General Meetings (AGMs) due to delays in finalizing the year-end financial statements. However, the relevant firm has been notified of this matter, and necessary steps will be taken to streamline these activities in the future.	Arrangements should be made to hold the general meeting in accordance with the Companies Act.
(b) Paragraph 2.3 of the Guidelines on Corporate Governance introduced by Government Circular No. 01/2021 dated 16 November 2021	Although the company was required to prepare a 5-year strategic plan including financial forecasts along with an action plan and annual budget to achieve its objectives, it had not acted accordingly.	An action plan has been prepared for the next few months of 2025. A strategic plan for a period of 05 years from 2026 to 2031 will be prepared and presented in the future.	A strategic plan should be prepared in accordance with the circular.
(c) The Operational Manual on Corporate Governance introduced by Public Enterprises Circular No. 01/2021 dated 16 November 2021 Paragraph 3.1	The approval of the Department of Public Enterprises should be obtained for the company's cadre and a recruitment	A letter has been sent to the Department of Management Services on 11 June 2025 to seek approval for the cadre. Until proper approval is	A recruitment procedure should be prepared in accordance with the circular and

	<p>procedure for the company should be prepared in accordance with 3.2 (i) and the approval of the relevant Ministry and the Department of Management Services should be obtained, but such approval had not been obtained.</p>	<p>given, the salaries are to be prepared in accordance with the Management Services Act and approved at the Board of Directors meeting.</p>	<p>approval should be obtained from the Department of Management Services.</p>
Paragraph 6.1 (ii)	<p>The company did not have a procedure for delegating authority over financial matters.</p>	<p>We are currently updating and preparing the Company's existing delegation of financial authority procedure, which is scheduled to be submitted with the relevant approval in the future.</p>	<p>Steps should be taken to prepare a procedure for delegating authority regarding financial matters.</p>
(d) Public Enterprises Circular No. PED/01/2021(iii) dated 27 September 2023	<p>The company has failed to develop and approve an organizational framework for its financial, administrative &amp; human resources, operational, and procurement &amp; tender activities. Furthermore, no decision has been reached regarding the specific organizational framework or policy to be followed in managing these respective fields.</p>	<p>Most of these activities will be carried out with the support of the Urban Development Authority.</p>	<p>In accordance with the referenced circular, an organizational and financial framework should be developed for every field and submitted for approval.</p>
(e) Government Procurement Guidelines 4.2.1 (a), (b) and (c)	<p>The company had not prepared a procurement plan for the years 2022, 2023 and 2024.</p>	<p>A procurement plan for the year 2026 will be prepared and submitted as soon as possible.</p>	<p>A formal procurement plan should be prepared and procurement activities should be conducted accordingly.</p>

### 2.3. Operational review and performance

Audit Observation	Management Comment	Recommendation
(a) In 1998, when inquiries were made regarding the legal right of the Urban Development Authority (UDA) to establish a company for rest house management, it was stated that the Authority possessed no such legal right, but a limited liability company named 'UDA Rest House' was registered on 29 September 2008 under the Companies Act No. 07 of 2007. Also, according to the Attorney General's letter dated 11 March 2015, the Attorney General had informed that the Authority did not have the power to establish this company and that only the management of the rest houses could be carried out under this Authority. The company's name was changed to 'Lanka Rest Houses limited' on 15 November 2010 and a Memorandum of Understanding (MoU) signed on 27 June 2008, between the Urban Development Authority (UDA) and UDA Rest Houses Ltd, and stated that the entire surplus remaining after deducting all expenses from the generated income must be paid to the respective local government authorities and a dividend (without a specified percentage) should be paid to the Urban Development Authority.	An opinion cannot be expressed regarding the current legal status of the company's establishment; however, it is expected that this matter will be discussed with our Board of Directors in the future. .	Action should be taken in accordance with legal advice.
(b) The management, operation, and control of all rest houses previously held by the Urban Development Authority (UDA) were transferred to the company through a Memorandum of Understanding (MoU) dated 27 June 2008. 07 rest houses remained inactive as at 31 December 2024 due to ongoing litigation and the expiration of their agreements; however, rent continues to be collected without taking measures to reactivate or repossess them. Although	Extensive attention has been focused on the rest houses without valid agreements and since the majority of these rest houses are actively operating despite the lack of a formal contract, measures are underway to recover their outstanding dues. Furthermore, based on future decisions by the Board of Directors, actions will be taken to either formalize their operations or repossess them.	The management must take action to implement the directions given by the Committee on Public Enterprises (COPE) dated 09 July 2024, and steer the operations efficiently and effectively in alignment with the company's objectives and vision.

the Committee on Public Enterprises (COPE), at its meeting on 09 July 2024, assigned the Chairman of Lanka Rest Houses the responsibility to take necessary action regarding this within one month, no progress has been made to date.

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| (c) | The ownership of lands for 28 rest houses belonging to Municipal and Urban Councils has not yet been transferred to the company. While the company pays 65 percent of the rest house income to these local authorities, no evidence was presented to the audit to confirm the basis on which this percentage was determined.   | Source documents related to 65% of the revenue were requested from the local government authorities, but no response was received and although inquiries were made regarding the documents pertaining to the 65 percent revenue collection, no evidence was presented. Consequently, these payments have been suspended pending further discussion on this matter. | Source documents supporting the payments must be submitted for the audit.  |
| (d) | According to Clause 32 of the agreement between Lanka Rest Houses Ltd and the respective rest houses, action must be taken to repossess any rest house that fails to pay management fees for more than two months. Out of 24 rest houses with total outstanding revenue of Rs. 36,596,690 as at 31 December 2024, the company had not taken steps to repossess those that remained in default for over two months. | Currently, measures are being taken to recover the outstanding amounts, and many rest houses are in the process of settling their dues. Legal action will be initiated against the rest houses that continue to default on their payments.   | Immediate action must be taken to recover outstanding revenue in accordance with the agreements.                                       |
| (e) | The profit of Rs. 3.77 million in 2020 declined to a loss of Rs. 2 million in 2021; furthermore, the information required determining the profit or loss for the years 2022, 2023, and 2024 had not been provided for auditing.  | Due to the COVID-19 pandemic, a 50 percent waiver was granted for all rest houses for 14 months, along with a full waiver for one month; consequently, the revenue for 2021 remained low.  | Financial statements must be prepared properly to identify the accurate profit or loss and take necessary actions to increase revenue. |

**3. System and Control**

<b>System and Control Area</b>	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Entering into agreements with external parties.	<ul style="list-style-type: none"> <li>(i) The company name is incorrectly stated in the agreements.</li> <li>(ii) The agreements refer to the old Companies Act instead of the new Companies Act.</li> <li>(iii) Non-inclusion of terms and conditions regarding constructions carried out by the third party.</li> </ul>	<p>A new draft agreement has been prepared, rectifying all the deficiencies found in the old agreements.</p>	<p>Agreements must be maintained and updated in a formal manner.</p>