

Business Lanka AN (Private) Limited - 2015

The audit of the financial statements of the Business Lanka AN (Private) Limited (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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. To carry out this audit, I was assisted by a firm of Chartered Accountants in public practice.

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 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 risk of material misstatements 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 audit opinion.

1.4 Basis for Adverse Opinion

The Company has been experiencing continuous business losses, negative working capital and negative solvency margin. Moreover, the main operations of the Company and service of key management personnel have been terminated with effect from 01 April 2016. These

events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. Further, the financial statements (and note there to) do not disclose this fact.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not give a true and fair view of the financial position of the Business Lanka AN (Private) Limited as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Policies

Although a sum of Rs.5,527,010 had been provided as bad and doubtful debts during the period under review, the procedure followed to do so had not been made available for audit.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2015 had resulted in a pre-tax net loss of Rs. 10,575,658 as compared with the corresponding pre-tax net loss of Rs. 5,549,998 for the preceding year, thus indicating a further deterioration of Rs.5,025,660 in the financial results. A significant decrease in revenue for the year under review was the main reason attributed for this deterioration in financial results.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

The gross profit margin and the profit markup of the Company for the year under review, as compared with the preceding year had decreased by 18 per cent and 51 per cent respectively. Certain matters revealed at an analytical review of the financial statements as compared with the preceding year are given below.

	2015 Percentage	2014 Percentage
Gross profit margin	29	47
Profit mark up (Gross profit on cost of sales)	41	92
Administration cost on turnover	77	41
Selling and distribution cost on turnover	67	38

3.2.2 Working Capital Management

In analyzing current assets together with current liabilities for the year under review and preceding year, negative working capital of Rs.10,418,648 and Rs.369,759 respectively were observed. Similarly, negative solvency margin of Rs. 12,740,116 and Rs. 2,164,458 respectively were observed in analyzing net assets together with stated capital for the same period. Details are shown below.

	<u>2015</u> Rs.	<u>2014</u> Rs.
Current Assets	5,420,500	10,801,514
Current Liabilities	<u>15,839,148</u>	<u>11,171,273</u>
Working Capital	<u>(10,418,648)</u>	<u>(369,759)</u>
Net Assets	(9,740,116)	835,542
Stated Capital	<u>3,000,000</u>	<u>3,000,000</u>
Solvency Margin	<u>(12,740,116)</u>	<u>(2,164,458)</u>