## Lake House Connect (Private) Limited - 2017

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The audit of financial statements of the Lake House Connect (Private) Limited ("the Company") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

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

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The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- sized Entities (SLFRS for SMEs) and for such internal control as 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

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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 risks of material misstatement 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 Qualified Opinion

(a) The computers valued at Rs.71,800 issued to the parent company during the year under review had been recognized as cash outflow from investing activities even though there was no such cash outflow in this connection.

(b) Although there was no sale revenue during the year under review, hiring charges and petty cash expenses aggregating Rs.22,360 had been recognized as cost of sales in the financial statements.

(c) Without taking any recovery action, a full provision for bad and doubtful debts had been made as at 31 December 2017 in respect of trade debtors amounting to Rs.15,229,562.

# 2. Financial Statements

## 2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the financial position of the Lake House Connect (Private) Limited as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium- sized Entities (SLFRS for SMEs).

### 2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the following:

a. The basis for qualified opinion and scope and limitations of the audit are as stated above.

b. In my opinion :

- Except for the matters described in basis for qualified opinion paragraph, I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.

- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

### 2.1.2 Going Concern of the Organization

The Board of Directors of the Company had taken a decision on 15 February 2018 to cease its operations due to continuous business losses, negative working capital and negative solvency margin. Therefore, the going concern assumption had not been adopted in the preparation of financial statements of the Company for the year under review.

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in a pre-tax net loss of Rs.6,435,373 as compared with the corresponding pre-tax net loss of Rs. 6,693,385 for the preceding year, thus indicating a slight improvement of Rs.258,012 in the financial results for the year under review. Decrease in distribution expenses was the main reason attributed for this improvement.

### 3.2 Value Addition

In analyzing the financial results of the Company, the value addition of the Company for the year 2014 was Rs. 1,897,969 and thereafter the value addition has continuously shown the negative values since the year 2015 to the year under review. Accordingly, the value addition of the Company was a negative value of Rs. 5,194,890 in the year 2015 and it was a negative value of Rs. 1,028,434 in the year under review after taking into account the staff salaries, taxes to the government and depreciation made for non-current assets.

### 3.3 Analytical Financial Review
**Working Capital Management and the Solvency Margin**

In analyzing the position of current assets and current liabilities of the Company, the working capital had shown a continuous negative values since 2015 and it was a negative value of Rs..22,868,875 as at the end of the year under review as compared with the negative value of Rs. 16,585,267 in the previous year. Hence, it was revealed that, the Working Capital Management of the Company had been at very weak level. Similarly, the negative solvency margin of Rs. 19,433,502 in the year 2016 had increased to Rs. 25,868,875 in the year under review or 33 per cent.

## 4. Operating Review

### 4.1 Operating Inefficiencies

The following observations are made.

(a) Salaries and wages aggregating Rs.5,355,534 had been paid for three contract basis employees of the Company without generating any revenue during the year under review. Further, training expenses of Rs.115,300 had also been incurred on behalf of these employees.

(b) Since the Company has not performed any activities in order to achieve its setout objectives, the Company has to be depended solely on the Parent Company for financing its expenditures. Hence, an amount of Rs.22,704,067 has to be paid to the Parent Company as at 31 December 2017.

## 5. Accountability and Good Governance

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A Corporate Plan, an Annual Action Plan and a Budget had not been prepared by the Company since its inception in terms of provisions in Public Enterprises Circular No. PED/12 of 02 June 2003.