

## **Ceybank Holiday Homes (Private) Limited – 2018**

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### **1.1 Opinion**

The audit of the Financial Statements of the Ceybank Holiday Homes (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the Statement of Financial Position as at 31 December 2018 and the Statement of 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 comments and observations which I consider should be reported 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 2018, 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.

### **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 intends 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 Auditor's Responsibilities for the Audit of the Financial Statements

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 scepticism 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 Financial Statements**

### **1.5.1 Internal Control over the preparation of Financial Statements**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
a An age analysis of inventories as at 31 December 2018 had not been received to the audit.	Noted, The Company is planning to introduce a new computerized system as soon as possible. The said issues will be addressed once the new system is introduced.	Age analysis should be presented for the inventories.
b Although an excel version of PPE register is being maintained, it was noted that a comprehensive register of all property, plant and equipment has not been maintained, with adequate details, proper control and monitoring process.	The Company has already maintained a fixed assets register including information of cost (the value of the asset), class of assets, date of purchase/ acquisition, rate of depreciation, written down value, date of disposal and physical locations. And also the Company has already commenced the process of labeling and identification of fixed assets with the assistance of Professional Institution. Once the said task is finished our records will be updated accordingly.	It is recommended to maintain a comprehensive and updated fixed asset register for all categories of fixed assets.

## 1.5.2 Non-Compliance with Sri Lanka Accounting Standard

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
It was noted that an impairment test has not been carried out for property, plant and equipment at the reporting date in order to identify whether there is any indication that an asset may be impaired as per LKAS 36 Impairment of Assets. It was observed that there are some items which were considered as damaged in the interim report issued for the physical verification.	Noted, The Company will make arrangements to carry out annual impairment test for property, plant and equipment in the future	An impairment test should be carried out annually.

## 1.6 Related Parties and Related Party Transactions not disclosed

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>						
It cannot obtain independent assurance over the accuracy and existence of following balances in the Statement of Financial Position, since direct confirmations have not been received for those balances, even though we have requested the said.	Noted, we have already made a request to respective department in the Bank of Ceylon to confirm the above balances.	It is recommended to provide direct confirmations to the Audit.						
<table border="0"> <tr> <td data-bbox="185 1209 383 1288">BOC Welfare Department (Rs.)</td> <td data-bbox="399 1209 782 1288">9,272</td> </tr> <tr> <td data-bbox="185 1288 383 1366">Bank of Ceylon (BOC) (Rs.)</td> <td data-bbox="399 1288 782 1366">70,380</td> </tr> <tr> <td data-bbox="185 1366 383 1453">BOC Admin Service Department (Rs.)</td> <td data-bbox="399 1366 782 1453">(1,992,222)</td> </tr> </table>	BOC Welfare Department (Rs.)	9,272	Bank of Ceylon (BOC) (Rs.)	70,380	BOC Admin Service Department (Rs.)	(1,992,222)		
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## 2. Financial Review

### 2.1 Financial Result

1. The operating result of the year under review amounted to a loss of Rs. 2,472,389 and the corresponding profit in the preceding year amounted to Rs. 2,070,953. Therefore, deterioration amounting to Rs. 4,543,342 of the financial result was observed. The reasons for the deterioration are decrease of revenue, increase of cost of sales and administrative expenses.

Year	2018	2017	2016	2015
Revenue (Rs.)	138,786,550	141,753,074	143,887,536	133,225,328
Net profit/ loss after tax (Rs.)	(2,472,389)	2,070,953	(465,024)	(2,925,585)

2. The Company is conducting four Ceybank restaurants in Katharagama, Anuradhapura, Nuwara Eliya and Glencarin Bungalow in Dikoya. Ceybank Rest Katharagama has achieved a profit of Rs. 271,206 when compared with previous year loss of Rs. 1,229,085 due to the increase in turnover by 16 per cent. And also profit of the Ceybank Rest Anuradhapura has increased to Rs. 5,084,797 from previous year profit of Rs. 4,910,865. Further, Ceybank Rest Nuwara Eliya has made a loss of Rs. 1,487,207 compared with the previous year profit of Rs. 1,766,025. According to the comments given by the Management, reasons for the above deterioration of the Ceybank Rest Nuwara Eliya were bad weather condition, poor standard of rooms and decrease in occupations. And also loss of Glencarin Bungalow in Dikoya has increased to Rs. 1,944,892 compared with previous year loss of Rs. 1,125,060. This was due to decrease in restaurant income by 12 per cent in the year under review.
3. The Company provides facilities to eight BOC Holiday Homes and twenty-eight Bachelor's Quarters which services are limited to Bank of Ceylon staff for an agreed management fee. Ceybank Holiday Home in Lindula has made a profit of Rs. 261,572 when compared with the previous year loss of Rs. 47,750 and the company had incurred a considerable loss of Rs. 339,030 and loss of Rs. 61,741 from the executive tea services and Central Training Institute of BOC - Maharagama (CTI) respectively in the year under review.

### 2.2 Ratio Analysis

According to the Financial Statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

Profitability Ratio (Percentage)	2018	2017
Net Profit Ratio	(1.78%)	1.46%
Return on Total Assets	(6.77%)	5.19%
Return on Equity	(1,031.72%)	(76.36%)

#### Liquidity Ratio ( Number of time )

Current Ratio	0.75	0.89
Quick Ratio	0.63	0.77

### 3. Operational Review

#### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a It was observed that, there is no written agreement between the company (Lessee) and Bank of Ceylon (Lessor) for Anuradhapura leasehold building.	Noted, it is in the process of preparing a lease agreement between the Company (Lessee) and Bank of Ceylon (Lessor).	It is recommended to enter in to a written agreement with the lessor.
b It was observed that there is no centralized place to accept and handle the reservations.  Eg: BOC welfare department (Katharagama, Anuradhapura, - Oldwing Nuwara Eliya)  Eg: Head office of the company (Anuradhapura- Pinnacle Dickoya - Upper - Lower)	Noted, we have already made a request to Bank of Ceylon to implement a new online reservation system, or revise the existing reservation system, once it is introduced this issue will be sorted out.	It is recommended to obtain the customers' reservations via one place.
c It was noted that there are no written agreements between the Bank of Ceylon (BOC) and the Company for maintaining staff quarters of Trincomalee, Kandy and Kyats for providing tea service to executive staff in the Bank of Ceylon.	Noted, the above issue will be notified to the higher Management of Bank of Ceylon and attended to in the future.	It is recommended to maintain proper written agreement with BOC.

### 4. Accountability and Good Governance

#### 4.1 Audit and Management Committee

Audit Issue	Management Comment	Recommendation
As per section 7.4.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, it is required to conduct Audit and Management Committee meetings on regular basis at least one in three months.  Company had not conducted at least one Audit and Management	The Company did not have a formal audit Committee up to now. However, the company has identified this lapse and obtain the Board approval for this from Board meeting hold on 01 October 2019 to set up an Audit Committee with effect from 4 <sup>th</sup> quarter ended 2019. The Members will be two directors with the	It is recommended to conduct Audit and Management Committee meetings on regular basis at least one in three months.

Committee meetings during the year under review. participation of the General Manager of the Company.

## 4.2 Approved Cadre

### **Audit Issue**

As per section 9.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, Company should have an organization chart with an approved cadre and it should be registered with the Department of Public Enterprises, General Treasury.

Company does not have an approved cadre during the year under review.

### **Management Comment**

The Company has prepared a Draft cadre considering the present requirement and submitted for approval of the Board. However, the Board requested Company Management to review the Cadre requirement along with Bank of Ceylon objectives and the Corporate Plan since CHHL is owned by the Bank of Ceylon. Accordingly, Management will resubmit the fresh cadre for approval shortly. Once the Board has approved the cadre, we will arrange to submit same to the Public Enterprise Department.

### **Recommendation**

It is recommended to have an organization chart with an approved cadre and it should be registered with the Department of Public Enterprises.