

BOC Property Development and Management (Pvt.) Limited - 2019

1.1 Opinion

The audit of the Financial Statements of the BOC Property Development and Management (Private) Limited (“Company”) for the year ended 31 December 2019 comprising the Statement of Financial Position as at 31 December 2019 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flow 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 report 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 2019 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 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 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 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue

As per Lease Agreements with all lessees, rent shall be paid in advance on first day of each month. However the following debtors' pattern indicates that nonpayment of rent as agreed in the lease agreement.

Management Comment

Comment Noted

Recommendation

Ensure that rent income is collected as agreed in the lease agreement.

Period	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
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----- Outstanding (Rs')	5,560,543	2,249,146	2,199,488	9,519,849

1.6 Cash Management

Audit Issue

It was observed that the Company is always maintaining a higher current assets position and does not focus to make profit on long term investments. As per the following table the percentage of current assets to the total assets has gradually increased from 37 per cent to 60 per cent during the 04 years period from 2016 to 2019.

Description	2019	2018	2017	2016
Total Assets (Rs.000)	1,927,313	1,814,396	1,749,625	1,582,329
Current Assets (Rs.000)	1,155,591	882,841	786,667	586,092
Cash & Cash Equitant (Rs.000)	681	1,635	22,475	12,462
Other Current Financial Assets/ Short Term Investment (Rs.000)	1,123,089	863,099	707,412	559,749
Current Assets as a % of Total Assets	60%	49%	45%	37%

Management Comment

Comment
Noted.

Recommendation

Ensure that a proper balance is maintained between profitability and liquidity of the Company.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 312 million and the corresponding profit in the preceding year amounted to Rs. 266 million. Therefore, an improvement amounting to Rs. 46 million of the financial result was observed. Increase of rent income by 11 per cent and increase of interest on fixed deposit by 26 per cent were the main reasons for the improvement of financial result 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
Rent Income	23,989,730	11	Rent income has increased by 11 per cent when compare with the preceding year due to revised rent income.
Interest on Fixed Deposits	21,506,225	26	Investment in fixed deposits has increased by 30 per cent when compare with the preceding year.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding 03 years period are given below.

Year	2019	2018	2017	2016
Net Profit Ratio (Percentage)	69	67	66	56
Current Asset Ratio (Number of time)	34.54	32.22	14.62	23.55
Net Current Assets to Total Asset (Number of times)	0.58	0.47	0.44	0.35

The Company has maintained high Current Asset Ratio due to unsatisfactory working capital management of the Company. Further, the Company had not focused on long term investment in order to maintain a balance between liquidity and profitability.

3. Operational Review

3.1 Management Inefficiencies

No.	Audit Issue	Management Comment	Recommendation
(i)	As per the lease agreements with all lessees, a penalty of 20 percent from the monthly rental is charged from the tenant if they are unable to pay the monthly rental before 14 days from the first day of each month. Instances were observed that 08 tenants were delayed the payment due for a particular month for more than 03 months period. However no penalties were charged from them for the delayed payment.	Comment Noted	Ensure that penalties are charged from tenants who delayed the monthly rental payments as agreed in the lease agreement.
(ii)	Even though lease agreements need to be signed prior to commencement of the lease period, eight instances were observed that the lease agreements were signed after the commencement of specified lease period.	Comment Noted	Ensure that lease agreements are signed prior to commencement of the lease period.
(iii)	As per the Board Paper 116/136/2016 dated 29 September 2016, it was resolved to consider prevailing market conditions and market studies/valuations on rentals of comparable properties when make revisions for rental value on buildings. Though the company is practicing same from 2017 onwards, the clause of “Fresh Valuation obtained from Bank’s Panel Valuers” was erroneously inserted into some lease Agreements.	Comment Noted	Ensure that correct information is inserted when preparing lease agreements.
(iv)	After signing of each lease agreement, it should be registered in the particular Land Registration Office within three months period. However following lease agreements were not registered in Land Registration Office up to the date of 17 September 2020. The details are given below.	Comment Noted	Actions need to be taken to register the lease agreements in Land Registration Office within the prescribed period.

Lease Agreement No.	Lessee	Agreement Signed Date
242	Bank of Ceylon Western Province-North	22.05.2019

244	Quess Crop Lanka (Pvt) Ltd (Randstad Lanka (Pvt) Ltd)	12.06.2019
273	Sameera Caters Canteen	27.08.2019
261	SLIIT Academy Ltd	28.10.2019
236	Engenuity (Pvt) Ltd	03.04.2019
265	Sidharan Fruit	13.11.2019
266	BOC Super Grade, Kandy	04.03.2020
267	BOC Central Province	04.03.2020

3.2 Human Resources Management

No.	Audit Issue	Management Comment	Recommendation
(i)	As per the Section 9.2 of the Hand Book on Public Enterprises Guideline for Good Governance issued under Public Enterprises Circular No. PED 12 dated 02 June 2003, the Organization Chart and the Approved Carder have not been registered with the Department of Public Enterprises, General Treasury.	Comment Noted	Ensure that the organization chart and approved carder are registered with the Department of Public Enterprises as directed through Section 9.2 of the Hand Book on Public Enterprise Guideline for Good Governance.
(ii)	As per the Section 9.7 of the Hand Book on Public Enterprises Guideline for Good Governance issued under Public Enterprises Circular No. PED 12 dated 02 June 2003, no ad hoc salary revisions by the Board or Management will be permitted consequent to a general revision. The company needs to get the approval from secretary to the Treasury for the salary revision made.	Comment Noted	Ensure that the approval is obtained from secretary to the Treasury for the salary revisions made as directed through Section 9.7 of the Hand Book on Public Enterprise Guideline for Good Governance.

However the company has not obtained the treasury approval for 10 percent Gross salary increment given on April 2019 to its Executive and Non- Executive staff.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue

As per the section 5.1.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, a Corporate Plan should be a rolling plan effective for a period of not less than three years. It should be prepared in order to ensure the effective operation of the company. However, the Corporate Plan for a three years period had not been prepared by the Company.

Management Comment

Comment Noted

Recommendation

Ensure that the Corporate Plan is prepared for the Company as directed through Section 5.1.1 of the Hand Book on Public Enterprise Guideline for Good Governance.