

BOC Property Development and Management (Pvt) Limited - 2020

1. Financial Statements

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 2020 comprising the Statement of Financial Position as at 31 December 2020 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 2020 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 Audit Scope

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

Management Comment

Recommendation

As per Lease Agreements with all lessees, though rent shall be paid in advance on first day of each month, the following outstanding trade receivable balances indicate that nonpayment of rent as agreed in the lease agreements. It further shows that the 99.9 percent of the arrears lease rentals are for the Merchant Tower Kollupitiya building and out of total outstanding 62 percent are in arrears for more than 90 days.

No Comment

It is recommended to take all necessary steps to collect rent receivables on due time.

Description	Outstanding Balance				Total
	1-30 Days	31-60 Days	(Rs.) 61-90 Days	Over 90 Days	
Merchant Tower – Kollupitiya	2,050,844	1,174,640	1,212,473	7,218,161	11,656,118
Ceybank House Kandy	6,863	-	-	-	6,863
Total	2,057,707	1,174,640	1,212,473	7,218,161	11,662,981

1.6 Cash Management

Audit Issue

It was observed that the Company is always maintaining a higher current assets position and does not focus on profit making 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 64 per cent during the 05 years period from 2016 to 2020.

Management Comment

No Comment

Recommendation

It is recommended to maintain a balance between liquidity and profitability.

Description	2020	2019	2018	2017	2016
Total Assets (Rs.000)	2,050,868	1,927,314	1,814,396	1,749,625	1,582,329
Current Assets (Rs.000)	1,310,738	1,155,591	882,841	786,667	586,092
Cash & Cash Equitant (Rs.000)	6,017	681	1,635	22,475	12,462
Other Current Financial Assets/ Short Term Investment (Rs.000)	1,281,361	1,123,089	863,099	707,412	559,749
Current Assets as a % of Total Assets	64	60	49	45	37

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 228 million and the corresponding profit in the preceding year amounted to Rs.219 million. Therefore, an improvement amounting to Rs. 9 million of the financial result was observed. Decrease of administration and other operating expenses by 40.7 per cent and decrease of tax expenses by 32.4 per cent were the main reasons for the improvement of the 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	(11,946,433)	(3.6)	Rent income has decreased by 3.6 percent mainly due to abolishment of Nation Building Tax with effect from 01 December 2019 and the 25 per cent concession granted on rent service charge to the all tenants.
Administration and other operating expenses	(7,552,618)	(40.7)	Administration and other operating expenses has decreased in 2020 mainly due to abolishing of Nation Building Tax (NBT) with effect from 01.12.2019.
Net Finance Income	(17,233,189)	(14.8)	Net Finance Income has decreased by 14.8 percent mainly due to low interest rate applied for the year 2020.
Tax Expense	(30,156,502)	(32.4)	A tax expense has decreased by 32.4 percent mainly due to reduction of income tax rate from 28 percent to 24 per cent and also due to decreased in profit.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding 04 years period are given below.

Year -----	2020 -----	2019 -----	2018 -----	2017 -----	2016 -----
Net Profit Ratio (Percentage)	71	66	67	66	56
Current Asset Ratio (Number of time)	23.95	34.54	32.22	14.62	23.55
Net Current Assets to Total Asset (Number of times)	0.61	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 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) As per the lease agreements with all lessees, a penalty of 20 percent from the monthly rental need to be charged from the tenant if they are unable to pay the monthly rental before 14 days from the first day of each month. Though 16 tenants were delayed the payment due for a particular month, no penalties were charged from them for the delayed payment.	Although we have an option in the Lease Agreement, the company has not practice same since inception, as majority of tenants occupied are BOC and its subsidiaries.	It is recommended to impose a penalty on delayed lease payments as mentioned in the lease agreements.
(ii) Even though lease agreements need to be signed prior to commencement of the lease period, five instances were observed that the lease agreements were signed after the commencement of specified lease period. Therefore, unavailability of valid lease agreement between the lessor and the lessee until the time of signing new agreement was observed. The details are given below.	Although we start the process for due renewal several months before the expiry dates, some tenants take lot of time to give their consent, but they pay monthly bills regularly. At every rent revision and every renewal this happens. Most of the tenants in occupation since inception are BOC and its subsidiaries.	It is recommended to sign a lease agreement prior to commencement of lease period.

Lease Agreement No.	Name of the Lessee	Lease Period	New Agreement Signed Date
270	Integrated Property Management Services	16/04/2020 – 15/04/2021	30/07/2020
242	Bank of Ceylon Western Province – North	01/01/2019 – 31/12/2020	22/05/2019
236	Engenuity (Pvt) Ltd	01/01/2019 – 31/12/2021	03/04/2019
147	Dialog	30/05/2016 – 29/05/2021	05/08/2016

			31/12/2021		
242	Bank of Ceylon Western Province- North		01/01/2019 01/01/2021	-	19/05/2019
244	Quess Crop Lanka (Pvt) Ltd (Randstad Lanka (Pvt) Ltd)		01/03/2019 28/02/2021	-	12/06/2019
256	Ceybank Management Limited	Asset (Pvt)	01/06/2019 31/05/2021	-	06/09/2019
257	SLIIT		01/01/2019 31/12/2021	-	20/09/2019
261	SLIIT Academy Ltd		01/01/2019 31/12/2021	-	28/10/2019
266	BOC Super Grade, Kandy		01/01/2019 31/12/2020	-	04/03/2020
267	BOC Central Province		01/01/2019 31/12/2019	-	04/03/2020
273	Sameera Caters Canteen		11/07/2019 10/07/2021	-	27/08/2019
296/20	Colombo Stock Exchange		01/01/2021 30/06/2021	-	09/02/2021

- (iv) Only a draft lease agreement was available for the BOC Super Grade Branch – MT for the lease period of 01/01/2021 to 31/12/2022.
- BOC Super Grade branch lease agreement governs by the BOC western province office. On our requests, they mentioned that with the Covid 19 onset they have not prioritized this matter yet.
- It is recommended to sign a lease agreement prior to commencement of lease period.

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

Agreed and company follows the budget prepared.

Recommendation

It is recommended to prepare a corporate plan for a period not less than three years and continue as a rolling plan.

4.2 Internal Audit

As per the Internal Audit reports issued by the internal auditors of the Company during the year 2020, the following deficiencies were observed.

Audit Issue

(i) Certain expired items of inventories have been identified in the stores during the physical verification of inventories.

Management Comment

Agreed

Recommendation

It is recommended to remove the expired inventories from the stores.

(ii) Unavailability of surveillance system inside the office premises, inaccurate date and time showing in the CCTV cameras and the unavailability of CCTV camera in the elevators were observed as the operational weaknesses of the company.

Agreed

It is recommended to install and repair the defaults of the CCTV cameras of the company.

(iii) As per the Part I, Section 6 of the Shop and Office Act states that, the period during which a person may be employed for overtime business in a shop or office shall not exceed total twelve hours overtime period in any given week. However, it was observed that 4 numbers of employees have exceeded the stipulated limit of overtime for a given week.

This was the practice of the company since the inception due to minimum maintenance staff.

It is recommended to comply with the prevailing rules and regulations by the Company.

(iv) A detailed IT and Security policy and a business continuity plan (BCP) were not available for the Company and not included in the Standard Operating Procedure Manual.

Agreed and Business Continuity Plan being prepared.

It is recommended to prepare a Detailed IT and Security Policy and a Business Continuity Plan for the Company.

