

## **BOC Property Development and Management (Pvt) Limited - 2021**

---

### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the Financial Statements of the BOC Property Development and Management (Private) Limited (the “Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 report to parliament appears in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practise.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 80 percent are in arrears for more than 90 days.

BOC and its subsidiaries occupy the majority of the space in BOC Merchant Tower and Ceybank House, Kandy.

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

All of them are used to settle their rent/Charges within a month.

But when we revise rent, BOC hold the revised amounts, until finalizing their approvals.

The rent arrears of Engenuity Pvt Ltd will be charged by legal means and action already commenced.

The Outstanding amount from Sameera Caterers has fully recovered from the refundable deposit.

Description	Outstanding Balance				Total
	1-30 Days	31-60 Days	61-90 Days	Over 90 Days	
<b>Merchant Tower – Kollupitiya</b>					
Engenuity (Pvt) Ltd	462,712	425,543	425,180	5,658,517	6,971,952
Sameera Caterers	22,958	17,177	17,042	17,888	75,065
<b>Ceybank House Kandy</b>					
Bank of Ceylon Central Province Office	3,310	-	-	-	3,310
Bank of Ceylon Super Grade Branch - Kandy	2,464	-	-	-	2,464
<b>Total</b>	<b>491,444</b>	<b>442,720</b>	<b>442,222</b>	<b>5,676,405</b>	<b>7,052,791</b>

## 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 45 per cent to 64 per cent during the past 04 years period from 2017 to 2020. However the Company has invested in debentures and equity shares of Merchant Bank of Sri Lanka and Finance PLC during the year 2021 and hence the current assets ratio has come down to 43 per cent in 2021.

Description	2021	2020	2019	2018	2017
Total Assets (Rs.000)	2,112,041	2,050,868	1,927,314	1,814,396	1,749,625
Current Assets (Rs.000)	901,564	1,310,738	1,155,591	882,841	786,667
Cash & Cash Equitant (Rs.000)	2,390	6,017	681	1,635	22,475
Other Current Financial Assets/ Short Term Investment (Rs.000)	883,942	1,281,361	1,123,089	863,099	707,412
Current Assets as a % of Total Assets	43	64	60	49	45

### Management Comment

Management considering investment in long term and investments made in debentures and equity shares of Merchant Bank of Sri Lanka are a part of the thinking process. Further such investments are in the pipeline and presently evaluating the macro-economic situation in country.

### Recommendation

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

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 189 million and the corresponding profit in the preceding year amounted to Rs.228 million. Therefore, a deterioration amounting to Rs.39 million of the financial result was observed. Decrease of finance income by 29 per cent, increase of administration and other operating expenses by 61 per cent and increase of direct expenses by 12 per cent were the main reasons for the deterioration 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)	Variance	Reason for the Variance
	(Rs.)	%	
Finance Income	(32,293,272)	(33)	Interest rate has drastically decreased in year 2021 compare to year 2020.
- Interest on FD			
Administration & Operating expenses	6,762,339	61	Increased due to making a provision for outstanding amount of Engenuity (Pvt) Ltd.
Direct Expenses	4,830,154.00	12	Increased due to increase of electricity expenses and the increase of maintenance expenses during the year under review.

## 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	2021	2020	2019	2018	2017
Net Profit Ratio (Percentage)	64	71	66	67	66
Current Asset Ratio (Number of time)	18.29	23.95	34.54	32.22	14.62
Net Current Assets to Total Asset (Number of times)	0.40	0.61	0.58	0.47	0.44

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) As per the rent agreement "Rent will be reviewed at the end of every two (02) years upon mutual agreement made in between the Lessor and the Lessee according to a fresh Valuation obtained from Bank's Panel of Valuers". However in following instances fresh Valuation reports have not been obtained from Bank's Panel of Valuers.	For rent revision we consider the existing market rates, the present economic condition and valuation report rates obtained at the end of each year. We are not getting a separate valuation report exclusively for rent	It is recommended to comply with the clauses included in the Rent Agreements.

- ✓ Quess Crop Lanka Ltd
- ✓ Ceybank Asset mgt Pvt Ltd
- ✓ Colombo Stock Exchange
- ✓ Merchant Bank of Sri Lanka
- Agreement No 186
- Agreement No 307
- Agreement No 205
- Agreement No 310
- Agreement No 222
- Agreement No 206
- Agreement No 204

reviews.

We intend to amend the above clause during next renewal.

(ii) 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 within the prescribed period. Details are given below.

Lease Agreement No.	Lessee	Agreement Signed Date
305	Boc Western Province	05/05/2021
236	Enginuity Pvt Ltd	03/04/2019

During the renewal of lease agreements of BOC, they have to obtain necessary approvals from respective province office and from head office as well.

It is recommended to register the lease agreements in the Land Registration Office within three months after signing of each lease agreement.

Therefore, the process generally exceeds 3 months' time duration.

Also, we had delays with Enginuity Pvt Ltd during renewal of agreements and we terminated the agreement with the tenant.

- |       |   |   |   |
|-------|---|---|---|
| (iii) | <p>Even though lease agreements need to be signed prior to commencement of the lease period, some instances were observed that the lease agreements were signed after the commencement of specified lease period.</p> <ul style="list-style-type: none"> <li>• BOC Central Office (Agreement No 186)</li> <li>• BOC Super Grade – Kollupitiya (Execution under process)</li> </ul>  | <p>During the renewal of lease agreements of BOC, they have to obtain necessary approvals from respective province office and from head office as well.</p> <p>Therefore, the process generally exceeds 3 months' time duration.</p> <p>Also, we had delays with Egenuity Pvt Ltd during renewal of agreements and we terminated the agreement with the tenant.</p> | <p>It is recommended to take every possible step to sign the lease agreement prior to commencement of lease period.</p> |
| (iv)  | <p>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 some 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</p> <ul style="list-style-type: none"> <li>• Engenuity (Pvt) Ltd</li> <li>• Sameera Caterers</li> </ul> | <p>Although these clauses included in all Agreements, we do not charge penalties as a practice. We intend to obtain approval from the management regarding this issue.</p>  | <p>It is recommended to impose a penalty on delayed lease payments as mentioned in the lease agreements.</p>            |

### 3.2 Human Resource Management

#### Audit Issue

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.

#### Management Comment

Action has been initiated to register the approved carder.

#### Recommendation

It is recommended to register the Organization Chart and the Approved Carder in the Department of Public Enterprises as directed through the Hand Book on Public Enterprises Guideline for Good Governance

#### 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

The company does not maintain a Corporate Plan since inception. We are in the process of preparing a rolling corporate plan.

###### Recommendation

It is recommended to prepare a Corporate Plan as directed through the Hand Book on Public Enterprises Guideline for Good Governance.

##### 4.2 Internal Audit

As per the Internal Audit reports issued by the internal auditors of the Company during the year 2021, the following deficiencies were observed.

###### Audit Issue

- (i) The company has not kept good received information for the admin purchases and it was not evidencing from the supporting.

###### Management Comment

This practice was implemented w.e.f. 01.01.2022.

###### Recommendation

It is recommended to keep goods received information for admin purchases which strengthen the internal control system of the Company.

- (ii) As per the procedure maintained, a MIR (Material Issue Request) must be obtained before issuing any materials from the store. However, in some instances where MIRs have been issued after the completion of the requested job.

During COVID 19 lockdown periods, only essential staffs were present in the building. During that period, certain material was obtained from stores in cases of emergency using a temporary issue book. The MIRs were raised only when the relevant person returned to the building.

It is recommended to raise MIR (Material Issue Request) before issuing any materials from the stores which strengthen the internal control system of the Company.

- (iv) The company is not practicing procedure as such, that collects customer's feedbacks regarding the service provided by the company.

However tenants are not satisfied with following services provided by the

This process has been started w.e.f. July 2022.

Twice a year we obtain feedback from tenants through a 'feedback form'.

It is recommended obtain the customer feedback and to implement the possible changes as per the customer's requirement.



company.

- Parking approvals are only for major vehicles and no any customer parking facility.
- A/C machines not working properly.
- Some services are dependent on one person.