

## **Ocean View Development Company (Pvt) Ltd - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ocean View Development company (Pvt) Ltd for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the profit and loss statement, statement of changes in equity and cash flow statement 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 and My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, 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 Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### 1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) As per the sections 50 and 51 of Sri Lanka Accounting Standard No.16, the depreciable amount of an asset shall be allocated on a systematic basis over its useful life and the residual value and the useful life of an asset shall be reviewed at least at each financial year end. If the expectations differ from previous estimate, the estimation error should be corrected as per Sri Lanka Accounting Standard No. 8. However, action had not been taken to recognize or dispose the assets amounting to of Rs. 28,202,939 which were fully depreciated and were still in use by the company.	The Company using cost model for PPE.	Should be adhered to the provision of Sri Lanka Accounting standards.
(b) According to section 15 of Sri Lanka Accounting Standard No. 24 information of transaction with related parties should have been disclosed. But details of transactions that had made with Urban Development Authority amounting to Rs. 5,013,830, had not been disclosed in the financial statements and above details had not been submitted to the audit. Further, the same amount had been recognized as the income for the year under review through a Journal entry, without any evidence and as a result of that profit for the year under review had been overstated by Rs. 5,013,830.	These are mentioned in Accounting Notes No. 27.3	Related party transactions should be disclosed and provide sufficient evidence should be provided on income.

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| (c) According to Sri Lanka Accounting Standard No.12 the capital grants allowed in future in relation to the assets acquired during the tax year should be adjusted in the calculation of temporary changes subject to income tax. But the company had not adjusted that changes. Hence Rs.1,539,038 was understated as deferred tax liability in the year under review. | Adjustment will be made in next year. | Tax adjustment should be made as per the LKAS - 12 |
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### 1.5.3 Accounting Deficiencies

#### Audit Issue

#### Management Comment

#### Recommendation

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| (a) In calculating the cash flow generated from operating activities, the non-cash expenses should be adjusted to the profit. But provision for doubtful debtors of Rs 2,794,131 had not adjusted to the profit. Therefore operating profit before working capital adjustment was understated by that amount. | Will be adjusted in the next year.                        | Cash flow statement should be prepared as per the provision of LKAS - 07          |
| (b) Interest receivable, staff loan, and pre-payment cost had not been adjusted in the cash flow statement under working capital change. Therefor net cash flow generated from operating activities had understated by Rs.2,501,808.  | Will be corrected in the year 2023.                       | Cash flow statement should be prepared as per the provision of LKAS - 07          |
| (c) The company had considered a medical insurance cost of Rs.566,801 as a non-allowable expenses in the calculation of income tax. As a result taxable profit for the year had overstated by that amount.  | Will be considered while preparing the final calculation. | Tax calculation should be done as the instruction of the relevant income tax Law. |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Rent arrears balance of Rs. 7,973,061 had been outstanding for a period of 1- 5 years as at 31 December 2022. Further it was observed that the company had not obtained sufficient deposit to recover the rent arrears when the tenant move out from the rent houses at end of the year under review.	Out of this Rs. 7.97 mn action for Rs.1.8 Mn will have to be taken legal case in supreme court.	Action should be taken to recover receivable as early as possible.

### 1.6.2 Payable

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Outstanding retention money of Rs.2,191,878 had not been settled from the year 2014 and 11 cheques amounting to Rs.280,409 overdue from 3 years without being settled.	Will be settle next year.	Instructions should be given to settle the advances on time.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Companies Act. 2007 i.Section 223(2)	The board members of the company should be registered in the company registrar's office, but the board members had not been registered from the year 2015.	Registration of the Board of Directors at the Company Registrar is in progress.	Action should be taken to follow provisions in the act.
(b) ii. Section 206	The directors have been removed and recruited without following the proper procedure. It had directly affected to the smooth operation in the company.	The proper procedure will be following future.	Action should be taken to follow provisions in the act.

## 2. Financial Review

### 2.1 Financial Result

The operating result for the year under review was a profit of Rs 408,594,452 and the corresponding profit in the preceding year was Rs.255,781,384. Therefore an improvement amounting to Rs.152,813,068 of the financial result was observed. The reason for the improvement was increase of other income.

### 2.2 Trend Analysis of major Income and Expenditure items

Even though the increase in fair value of investment property (condominium tower of Bambalapitiya) had been estimated at Rs.391.60 million, the rent income from the building had been reduced from Rs. 64.49 million to Rs. 52.17 million by Rs. 12.32 million. Further travelling expenses had been increased by Rs. 1.07 million during the year under review compared to the previous year.

### 2.3 Ratio Analysis

The current assets ratio of the company had been 2:1 and the quick assets had been 0.85:1 at the end of the year under review, and these ratios in the previous year had been 2:1 and 0.79:1 respectively.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The company had paid Rs.9,759,477 to a private architect to prepare plans for housing projects in the Maligawaththa, Nuwaraeliya, Aramya Road Kirulapana, Mahawaththa from the year 2016 to the year 2019 but plans had not been completed even up to March 2023. As well the company had paid of Rs.2,280,000 to same architect for preparing the basic plans of the second phase of the OVDC building. But later without implementing the plan, the company had decided to repair the existing building and rent it out. Although the expenditure of Rs.11,989,477 had been spend on the preparation of plans for project implementation, projects had not been started as at the end of the year under review.	Planing and design works and Consultations have been obtained from Mr. Ugan.	Company fund should be utilized in effective efficiency audit economical manner.
(b) A withholding tax amount of Rs.1,607,298 had not been recovered against the income tax over 04 years. As a result, that amount may be lost to the company.	It has been proposed to take legal action on arrears.	Immediate action Should be taken to recover the arrears.
(c) Balances in three bank accounts amounting to Rs. 2,470,004 had been remained idle over one year.	Will be invested in the future.	Idle cash should be invested effectively.

### 3.2 Operational Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The podium building located in the company office premises had been given on rent basis to the private institution since May 2010. But it had returned to the company on December 2021 and arrears rent as at date was Rs.4.76 mn . But the company had deducted that amount by Rs.1.88 mn and the balance had not been recovered up to now and it was a problematic issue in audit. Further it was observed that building remained idle for more than a year due to delay in necessary repairs to the building.</p>	<p>Will have to be taken legal action for arrears and action have taken rent out the building.</p>	<p>Action should be taken to use the investment property in effective manner.</p>
<p>(b) In the year 2012 the company had purchased 398.1 purchase of land in Kahathuduwa area at a cost of Rs.19.21 million and in the year 2014, 11 houses had been built on that land under Kahathuduwa project phase I at a cost of Rs.77.31 million. But out of those houses four houses could not be sold as at the end of the year under review. In spite of that, the Board of Directors had decided on 23 November 2021 to construct 36 houses on the pre-sale basis under Kahathuduwa project phase II and the construction work of 11 houses had been started by spending of Rs.40.38 million from the company's own fund without being founded from suitable buyer's. However the construction works had not been completed even up to March 2023.</p>	<p>Company is in the process for sale houses and land.</p>	<p>Investment decision should be taken after proper appraisal and project should be implemented as preplanned.</p>
<p>(c) An agreement had been made with a private company for the sale of 21 shops located in park road in 2019 and the company had collected Rs.50 million. However, the residents of this building had filed a case against the company claiming that rented area was their parking area. Meanwhile, company had not provided water and electricity for those shops up to 31 March 2023. Therefore, afore mentioned company had filed a case against the company demanding compensation of Rs.130 million.</p>	<p>Filing of case from people could not be achieved objective.</p>	<p>Infrastructure facilities should be provided to investment properties properly before renting out.</p>
<p>(d) The house bearing Lot No. II located at Kahathuduwa Phase I had mortgaged to the Bank of Ceylon by the company on 03 July 2016. However, the company had sold this house in the year 2019 without informing mortgaged condition to the buyer of the house. Further it was observed that the company had not acquired the said property</p>	<p>This house had mortgaged to the BOC by the company. It's not effect to enterd in memorandum for sales.</p>	<p>Company should be adhered to the Financial Management Regulation.</p>

according to the Company Financial Management Regulations No. 8.5.

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| <p>(e) In the year 2018, company had planned to build an apartment complex of 70 houses in the Delkanda area. But the construction works had not been started as at 31 March 2023.</p>   | <p>Company is calling RFP for constructing apartment project at delkanda. Couldn't find Investor.</p>                                 | <p>Investment decision should be taken after proper appraisal.</p>    |
| <p>(f) A sum of Rs.6.5 Million had been allocated for the housing projects in Kegall Walawwawaththa and Siyambalanduwa in the year under review, but the expropriation works had not been done as at 31 December 2022.</p>   | <p>Company had only field visit and get recommendation of NBRI.</p>   | <p>Investment decision should be taken after properly appraisal.</p>  |
| <p>(g) New rent agreements for 10 housing units and 7 transmission towers had not been made from 1 to 5 years. Furthermore, due to non-agreement the lawyer's fees of Rs.308,566 regard to 09 houses and one transmission tower had not obtained by the company.</p> | <p>Company has informed several times about the delay in signing agreement they need to be sorted before signing lease agreement.</p> | <p>Written agreement should be made with the responsible parties.</p> |
| <p>(h) Tower building had remained idle without been leased out during the year under review. As a result the company had incurred a loss of Rs. 117.77 mn and the management had failed to find tenants as at the end of the year under review.</p>                 | <p>The company was able to customers for a 03 number of apartment</p>   | <p>Action should be taken to utilize company assets effectively.</p>  |