

Property Development PLC and its Subsidiary - 2016

The audit of the financial statements of the Property Development PLC (“The Company”) and the consolidated financial statements of the Company and its Subsidiary (“the Group”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information 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.

This report is issued in terms of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s and Group’s preparation and fair presentation of the financial statements 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 and Groups internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2 Financial Statements

2.1 Opinion

In my opinion, the financial statements and the consolidated financial statements give a true and fair view of the financial position of the Company and Group as at 31 December 2016, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2016, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company comply with the requirements of Sections 151 and 153 of the Companies Act, No. 07 of 2007.

2.2 Group's Financial Statements and Basis of Consolidation

The Group financial statements comprised the consolidation of the financial statements of the Company and its Subsidiary i.e. Koladeniya Hydropower (Pvt) Limited.

Koladeniya Hydropower (Pvt) Limited (KHP) which is fully owned Subsidiary of the Company and the value of investment as at 31 December 2016 was Rs.242 million.

2.3 Share Capital and the Equity

The Company is a quoted company and a Subsidiary of the Bank of Ceylon (BOC) with a 95.5 per cent share capital.

2.4 Non-compliance with Laws and Regulations

According to the Prescription Ordinance, if the liability was not claimed within the statutory retention period of six years, it should be written back. However, a balance of Rs.6,742,644 which has exceeded the statutory retention period of six years had been included in dividend payable as at 31 December 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company and the Group had recorded a pre-tax net profit of Rs.560 million and Rs.616 million respectively as compared with the corresponding pre-tax net profit of Rs.471 million and Rs.537 million respectively for the preceding year, thus indicating an improvement of Rs.89 million or 18.9 per cent and Rs.79 million or 14.7 per cent respectively in the financial results.

The following table gives a summary of the reasons attributed for the improvement in the financial results of the Company and the Group during the year under review as compared with the previous year.

	Group			Company		
	2016	2015	Variance Favourable/ (Adverse)	2016	2015	Variance Favourable/ (Adverse)
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	Rs. Mn	Rs. Mn	Percentage	Rs. Mn	Rs. Mn	Percentage
Rental Income	619	527	17.45	619	527	17.45
Revenue from Hire of Power Plant CEB	76	97	(21.64)	-	-	-
Other operating income	237	190	24.73	220	184	19.56
Operating expenses	316	277	(14.07)	279	240	(16.25)
Profit before income tax	616	537	14.71	560	471	18.89

3.2 Analytical Financial Review

The following observations are made.

- (a) Out of the total expenses of the Company, a sum of Rs.111.27 million or 40 per cent represented the direct expenses incurred for Electricity, Insurance, Water, Municipal Rates and maintenance costs and 20 per cent out of the direct expenses was spent for the maintenance cost.
- (b) Seventy two per cent of the total assets as at the end of the year under review are representing the financial assets of the Company. The Company had invested a sum of Rs.1,694 million in fixed deposits as at 31 December 2016 and it was an increase of 205 per cent as compared with Rs.555 million in the preceding year.

- (c) Trade and other receivables as at 31 December 2016 had increased significantly by Rs.196 million or 983 per cent as compared with the previous year due to increase in rent receivable from the parent company.
- (d) Trade and other payables of the Company had also increased by Rs.19 million or 77 per cent as compared with the previous year due to increase in sundry creditors.
- (e) According to the financial statements for the year 2016, the operations of the Company had reported retained earnings of Rs.897 million as compared with the retained earnings of Rs.1,668 million for the preceding year, thus indicating a deterioration of Rs.771 million. The reason for this deterioration was declaration of interim and final dividend for the ordinary shares.

4. Operating Review

4.1 Performance Review

The principal activity of the Company is to own, maintain, manage, develop and sustain the utility and value of the Bank of Ceylon Headquarters building which the company has rented out to the Bank of Ceylon. However, more than 77 per cent of the total assets of the Company were represented by investments.

Koladeniya Hydropower (Pvt) Ltd which is a fully owned Subsidiary of the Company and it commenced its commercial operations on 25 April 2012. The main objective of this Subsidiary is generating electricity through the power plant with the capacity of 1200 kw and delivered it to the National Grid under the Agreement entered into between the Subsidiary and Ceylon Electricity Board.

4.2 Management Activities

The following observations are made.

- (a) Formal policies and procedures for IT operations had not been implemented and approved by the management. Further no formal documents had been used for user account management and no formal process was in place.
- (b) Periodic users' access reviews were not performed for the systems of Sybiz, Maintenance Management, Payroll, Active Directory and DMS Inventory. The privileged access activities were also not mentioned.
- (c) No password controls were implemented in the systems. There was no option for the user to change the initial password that the IT administrator communicates.
- (d) The disposed hardware equipment had been kept in "me server room" without being removed. Further, the temperature monitors, heat detectors and humidity detectors were not made available in the server room.

- (e) It was further observed that there was no secure off-site location to store backups and currently the backups are being stored on the same office premises. Also there was no formal documentation for the restoration testing.
- (f) The Disaster Recovery (DR) plan had not been periodically reviewed and updated and the latest version was updated in the year 2014.

4.3 Stocks Management

The inventory sub ledger of the Company included an inventory valued at Rs.3,581,759 owned to the parent company (BOC). The Company maintains this inventory at its warehouse on behalf of the BOC.

4.4 Assets Management

The total cost of the fully depreciated assets of the Company as at 31 December 2016 was Rs.78, 902,846 or 28.7 per cent of the total non-current assets.

The following observations are made in this connection.

- (a) Assets valued at Rs.70,455,174 or 0.89 per cent of the above assets had been purchased very long time ago and the Company was unable to verify the physical existence of them.
- (b) The balance of the above assets valued at Rs.8,447,672 are being continuously used by the Company without taking action to review residual value and useful life of those assets.

5. Accountability and Good Governance

5.1 Corporate Plan and Action Plan

As required by the Section 5.1.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003, the Company had not prepared a Corporate Plan. However, the Company had been prepared a Business Plan and Action Plan for the year under review.