

BOC Property Development & Management (Pvt) Limited – 2017

The audit of the financial statements of the BOC Property Development & Management (Pvt) Limited (“the Company”) for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statements of changes in equity and statement 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 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 misstatements.

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 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on other Legal and Regulating 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 comply with the requirements of Section 151 of the Companies Act No 07 of 2007.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Company had recorded a pre-tax net profit of Rs. 256 million as compared with the corresponding pre-tax net profit of Rs. 154 million for the preceding year, thus indicating an improvement of Rs.102 million or 66 per cent in the financial results. The main reasons for this improvement were increase of rental income and other operating income during the year under review as compared with the previous year.

3.2 Analytical Finance Review

3.2.1 Profitability

The following table gives a summary of the financial results of the Company for the year under review and the preceding four years.

	Rs. '000'				
Year	2017	2016	2015	2014	2013
Revenue	298,553	212,545	203,426	202,138	172,170
Other operating income	89,516	59,056	41,619	55,738	73,059
Total Revenue	388,069	271,601	245,045	257,876	245,229
Total Expenses	(131,815)	(117,861)	(148,935)	(136,623)	(127,102)
Profit before Income Tax	256,254	153,740	96,110	121,253	118,127
Income Tax	(74,643)	(45,726)	(39,605)	(44,976)	(42,935)
Profit for the year	181,611	108,014	56,505	76,277	75,192

3.2.2 Accounting Ratios

According to the financial statements presented, the certain important accounting ratios for the year under review as compared with the proceeding four years are given below.

Year	2017	2016	2015	2014	2013
Net Profit Ratio (Percentage)	66	56	39	47	48
Current Ratio (Number of Times)	14.62	23.55	20.17	15.67	19.56
Net Current Assets to Total Assets (Number of Times)	0.42	0.35	0.32	0.32	0.41
Return on Total Assets (Percentage)	10	7	4	5	5

The Company has maintained higher current ratio which reflecting that the working capital management of the Company was at very weak level. Further, the Company had not made its attention to invest its excess money in long term investment sources rather than investing in short term financial assets.

4. Operating Review

4.1 Performance

The Company was incorporated in the year 1993 for the purpose of carrying on the business of construction of a shopping and office complex including apartments, shops, offices and combination arcades. However, as per the financial statements, the principal activity of the Company during the year under review was only renting the office spaces of two buildings owned by the Company, i.e. the BOC Merchant Tower in Colombo 3 and Ceybank House in Kandy. Hence, the company had failed to identify the strategies and prepare succession plans in order to achieve its main objectives.

4.2 Human Resources Management

An approved Human Resources Policy is not available in the Company. Therefore, the recruitments and other activities related to Human Resources Management had not been effectively implemented at the company.

4.3 Operating Weaknesses

The main income of the Company is receiving rent from the Bank of Ceylon and rent per square feet is increase with the renewal of the agreement entered into between the Company and the Bank. However, the said agreement had not been renewed since 2017. Therefore, the Bank of Ceylon paid rentals based on the rate included in the previous agreement. Hence, the total agreed arrears rental of Rs. 44,180,329 had been included in the financial statements as a receivable as at 31 December 2017.

5. **Accountability and Good Governance**

5.1 **Corporate Plan and Action Plan**

A Corporate Plan and Action Plan had not been prepared by the Company since its inception.

5.2 **Audit and Management Committee**

Four Audit and Management Committee meetings should be held by the Company as required by 7.4.1 of the Public Enterprises Circular No. PED 12 of 02 June 2003. However, only three committee meetings had been held for the year under review.

6. **Systems and Controls**

Special attention is needed in respect of the following areas of control.

Areas of Control	Observations
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(i) Inventory Control	Existence of difference between the ledger balance and physical inventory value for the year under review.
(ii) Procurements	Unavailability of a Procurements Manual in the Company.