

## **BOC Property Development and Management (Pvt.) Limited – 2018**

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### **1.1 Opinion**

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The audit of the Financial Statements of the BOC Property Development and Management (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the Statement of Financial Position as at 31 December 2018 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 2018 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**

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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**

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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 Auditor's Responsibilities for the Audit of the Financial Statements

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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.

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a profit of Rs. 265 million and the corresponding profit in the preceding year amounted to Rs. 256 million. Therefore, an improvement amounting to Rs. 9 million of the financial result was observed. The reason for the improvement was increase of interest income on fixed deposits during the year.

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

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According to the Financial Statements presented major Income and Expenditure items for the year under review as compared with the proceeding three years are given below.

| <b>Year</b>                    | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--------------------------------|-------------|-------------|-------------|-------------|
| -----                          | -----       | -----       | -----       | -----       |
| Revenue (Rs.)                  | 300,043,204 | 300,067,464 | 212,545,106 | 203,425,604 |
| Direct Expenses (Rs.)          | 38,400,028  | 39,048,822  | 38,215,071  | 42,360,234  |
| Staff Costs (Rs.)              | 38,400,028  | 39,048,822  | 31,937,747  | 28,264,823  |
| Administrative Expenses (Rs.)  | 18,713,878  | 19,017,595  | 14,946,306  | 34,426,320  |
| Other Operating Expenses (Rs.) | 100,727     | 452,628     | -           | 15,345,291  |

### 2.3 Ratio Analysis

The Company's some important Accounting Ratios for previous three years and the year under review are as follows.

| <b>Year</b>  | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|-------------|-------------|
| -----  | -----       | -----       | -----       | -----       |
| Net Profit Ratio (Percentage)                          | 67          | 66          | 56          | 39          |
| Current Ratio (Number of time)                         | 32.31       | 14.62       | 23.55       | 20.17       |
| Net Current Assets to Total Asset<br>(Number of times) | 0.48        | 0.44        | 0.35        | 0.32        |

The Company has maintained higher Current Ratio due to unsatisfactory level of the working capital management of the Company. Further, the Company had not paid their attention to invest excess money in long term investments comparing with short term investment.

### 3. **Operational Review**

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#### 3.1 **Procurement Management**

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| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|--|--|--|
| The Procurement Manual has not been prepared by the Company. | Assignment given to Chartered Accountant of the Private Audit firm to prepare Standard Operating Procedure including Procurement procedures. | Should prepare the Procurement Manual for the Company immediately. |

#### 3.2 **Human Resources Management**

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|   | <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|---|--|--|--|
| a | A HR Policy Manual was not prepared.   | Assignment given to Chartered Accountant of Private Audit firm to prepare Standard Operating Procedure including HR policies.  | Should prepare a HR policy for the Company.  |
| b | 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. | It had not been the previous to submit this document to the General Treasury, for registration. We will be making arrangements to submit a copy of the duly approved Organizational Chart of BOC PDML to General Treasury, for information and necessary action. | Organization Chart with an approved cadre should be registered with the Department of Public Enterprise, General Treasury immediately. |

#### **4. Accountability and Good Governance**

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##### **4.1 Corporate Plan**

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| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>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.<br/>However, the Corporate Plan for the year had not been prepared by the Company.</p> | <p>Draft Corporate Plan for the period 2020-2022 is being prepared for submission to the board of BOC PDML, for approval.</p> | <p>Should prepare a Corporate Plan for the Company and approval should be obtained immediately.</p> |

##### **4.2 Audit & Management Committee**

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| <b>Audit Issue</b>   | <b>Management Comment</b>   | <b>Recommendation</b>   |
|--|---|---|
| <p>As per the Section 7.4.1 of the Public Enterprises Circular No. PED 12 dated 02 June 2003, it is required to conduct Audit and Management Committee meetings on regular basis at least one in three months. However, the Company had conducted only three Audit and Management Committee meetings during the year under review.</p> | <p>After the one meeting, on instructions of the Secretary, Ministry of Public Enterprises, the Directors submitted their letter of resignation effective on 23<sup>rd</sup> May 2018 and Board was reconstituted on 28<sup>th</sup> August 2018. The second meeting was held on 15<sup>th</sup> November 2018 and the third one was on 14<sup>th</sup> December 2018. However, falling short of one meeting as required, due to unavoidable circumstances mentioned above.</p> | <p>Should conduct Audit and Management Committee meetings on regular basis at least once in three months.</p> |