Ocean View Development company (Pvt) Ltd – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Ocean View Development Company (Pvt) Ltd ("Company") for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit and loss and other comprehensive income**,** 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. 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 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 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 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Contrary to the provisions in the Sri Lanka Accounting Standard on Cash Flows (LKAS 07) "fair value gain of staff loan" amounting to Rs. 4,052,422 had been re-added to the cash generated from operating activities and gratuity payment amounting to Rs. 377,860 had not been adjusted in the Cash Flow Statement as cash out flow.	Agreed that no need to re added the amount Rs. 4,052,422 to profit before tax and mistakenly Gratuity amount of Rs. 377,860 was adjusted through Trade and Payables.	Should be complied with the provisions in the Standard.
(b)	According to Sri Lanka Financial Reporting Standards No. 09 Classification of Company financial assets had not been shown under the category of amortized cost, fair value through other comprehensive income and fair value through profit or loss.	No management comment.	Should be complied with the provisions in amended the standard.

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	**Rs.**	**Rs.**		
Amount payable to Urban Development Authority	672,301	10,085,613	9,413,312	Amount Rs. 672,301, which is the balance amount, was spent by UDA for tower building project.	Action should be taken to reconcile the balance.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount	Evidence not	Management Comment	Recommendation
	Rs			
Inventory (Park Road Housing Project)	Rs. 24,284,516	Source Documents.	Non availability of documents to support Rs. 24,284,516, which was completed over 10 years ago.	Documentary evidences should be maintained properly.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 166 of the Companies Act No 7 of 2007and Public Enterprises Circular No 12 dated 02 June 2003.	Annual reports had not been prepared and tabled in the parliament.	Details of this company have been included in annual reports of National Housing Development Authority.	Action should be taken to table annual reports as required by the Circular.
(b)	Public Enterprise Circular No.PED/03/2015 dated 17 June 2015.	The Company had paid Rs. 250,000 monthly allowance to the Chairman of the	Decision taken by the Board of Directors.	Allowance should be paid according to the provisions in the Circular.

	(i) Chapter 2.2	Company without obtaining the recommendation of the Secretary to the Line Ministry and the concurrence of the Finance Ministry.		
	(ii) Chapter 2.8	Without out the approval of General Treasury, the company had been paid a sum of Rs. 850,000 to the board members.	Decision taken by the Board of Directors.	Payments should be made with proper approval
(c)	Public Enterprise Circular No. PED/12 dated 02 June 2003 (i) Chapter 7.3	In forty five instances the company had been paid a sum of Rs. 15,000 as festival advance per employee and in five instances more than Rs. 250,000 as distress loan per employee based on the financial and management manual of the company without obtain approval of the line Ministry and concurrence of the Department of Public enterprise for the Financial and Management Manual of the company.	Company was not under any line ministry	Payment should be made with proper approval.
	(ii) Chapter 5.1.3	The company had not forwarded the updated copies of the corporate plan approved by the board together with the updated annual budget to the line ministry, Department of public enterprise, General treasury and to Auditor general.	Will comply in future	Action should be taken to forward the approved updated copies of Corporate plan, Budget as required by the Circular

	(iii) Chapter 7.4	The company had not setup an audit committee, and training committee for the year 2018.	Will comply in future	Action should be taken to set up committee as required by the Circular
	(iv) Chapter 8.8	Delegation of authority should be updated and approved by the board at the beginning of each year.	Clearly mention in the company's manual	Action should be taken to delegate authority as required by the Circular.
	(v) Chapter 9.5.1	The company had not prepared a training budget.	Will comply in future	Action should be taken to prepare training budget as required by the Circular.
(d)	Public Finance Circular No. PED/01/2015 dated 25 May 2015	Contrary to the provision in the circular, the company had been approved 200 Ltrs of fuel allowance to the General manager and Deputy General manager and also unlimited fuel allowance to the chairman.	200 Ltrs fuel is implied for all vehicles other than chairman's vehicle most occasions the actual fuel consumed is less than 140 Ltrs.	Action should be taken to approve the fuel allowances as required by the Circular.
(e)	Paragraph 5 (ii) of the Public Finance circular no 01/2014 dated 17 February 2014.	Action plan had not been prepared incorporating the component recommended by the circular.	Action plan is prepared as per the format given by the ministry of housing, construction and cultural affairs.	Action should be taken to prepare action plan as required by the Circular.
(f)	Paragraph 4 of the National Procurement Agency Circular no 08 dated 25 January 2006.	The Company had not prepared a master and a detailed procurement plan.	Will comply in future	Action should be taken to prepare master, detailed procurement plan as required by the Circular.

1.7 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
PAYE tax applicable on directors allowances and bonus had been paid by the company without being deducted applicable tax from directors	According to Board decision the PAYE tax also part of director's allowance.	Should be complied relevant tax regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 89,406,126and the corresponding profit in the preceding year amounted to Rs. 84,962,545. Therefore an improvement amounting to Rs. 4,443,581of the financial result was observed. The reason for the improvement is increase of revenue under sale of houses and land amounting to Rs.105, 350,000.

2.2 Trend Analysis of major Income and Expenditure items

Revenue from investment property and service charge income of the year under review compared with the preceding year had been increased by Rs.20,240,830 and Rs.1,507,619 respectively. Also repair and maintenance, legal fee and professional charges had been increased compared with the preceding year as a percentage of 69, 5617 and 562 respectively.

2.3 Ratio Analysis

(i) Both gross and net profit margins of the company have dramatically decreased in respective to the preceding year figures.

(ii) Current assets ratio shown as strong as industry norm, however quick ratio is poor compared with industry norm and which reflect the barriers to settle the short term liability component.

(iii) Gearing ratio has been decreased and it reflects that the Company is reaching the equity sources for the survival.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Five units of the ground floor had been rented out less than the current market rental value and another three units of ground floor had been rented out without obtained the proper rental valuation.	Rent valuation normal practice is to compare it with rent plus service charges and Rent valuation is available in 2012 report.	Rent charges should be align with the current valuation
(b)	Three units of the ground floor had been rented out without a written agreement.	Rent agreement not yet singed because of court cases, delay of board approval.	Legally valid agreements should be signed when renting out buildings.
(c)	Loan interest and loan installments receivable from six interdicted and vacated officers amounting to Rs.1, 086,282 had remained without being recovered from the loan guarantors.	Currently cases are ongoing through "SAMATHA MANDALAYA"	Actions should be taken to recover receivable as early as possible.
(d)	Rs.94,068,295 of Kahathuduwa housing project completed in 2016 had not been sold up to the end of this year under review.	Company is trying various marketing efforts to sell the property in Kahathuduwa.	Housing project should be commenced after proper market survey.