

Property Development PLC and its Subsidiary- 2019

1.1 Opinion

The audit of the financial statements of the Property Development PLC (“Company”) and the consolidated financial statements of the company and its subsidiary (“Group”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 appears 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 of the company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2019 and of their financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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 Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s and the Group’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group 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 Group.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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 scepticism 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 Group 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 Group and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Group;
- Whether the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Group 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 Inappropriate Valuation or Estimation

Audit Issue

The Company has received bonus shares from following companies, after terminated the share portfolio had with Merchant Bank of Sri Lanka in 2001. These shares are recorded at their initial cost without taking the fair value of such shares as at 31 December 2019.

Company

No. of Shares

Asiri Hospitals Holdings PLC	30
Ceylinco Insurance PLC	26
Hatton National Bank PLC	18

Management Comment

Action has already been taken to fair value the said shares in subsequent published Financial Statements i.e Interim Financial Statements for the quarter ended 31 March 2020 and thereafter.

The fair value of said shares as at 31 December 2019 was Rs 55,359/-.

Recommendation

Need to record the bonus shares at fair value as at the reporting date.

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

Reference to Laws, Rules, Regulations, etc.	Non – Compliance	Management Comment	Recommendation
Employees’ Provident Fund Act No.15 of 1958	The company does not include fixed allowances of executive staff to the basic salary when computing EPF and ETF.	The Management will submit a paper to the Audit Committee and to the Board of Directors in this regard.	Recommended to include all applicable allowances to the base salary when calculating EPF and ETF.
CSE Listing Rule 7.13.1(a) of the Colombo Stock Exchange (CSE)	The company was unable to comply with minimum 20 per cent public holding requirement.	The company is evaluating the legal feasibility of re-purchasing the shares held by the minority shareholders and to delist the company.	It is recommended to speed up the delisting process.

1.7 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(i) Company has done an addition to the pond area of the investment property amounting to Rs.12,617,139 during the year 2019. The Company has not claimed capital allowance for the above amount in the current year income tax computation.	Capital Allowances on pond area of the Building has already been claimed prior to making the final tax for the year of assessment 2019/2020.	Ensure the correctness of the income tax liability calculated for the financial year.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.696,006,158 and the corresponding profit in the preceding year amounted to Rs.497,794,653. Therefore, an improvement amounting to Rs.198,211,505 of the financial result was observed. Increase of rent income by 13 per cent and increase of other operating income by 98 per cent were the main reasons for the improvement of financial result during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs.)	Variance %	Reason for the Variance
Revenue	95,759,573	13	Rent income has increased by 13 per cent when compare with the preceding year.
Other operating income	138,634,556	98	Due to receiving Rs.26 million from Bank of Ceylon as reimbursement of capital expenditure and receiving Rs.159.8 million of dividend income from subsidiary.
Finance Income	15,641,491	8	Investment in fixed deposits and REPO investment has increased by 22 per cent and 65 per cent respectively in the year under review when compare with the preceding year.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding year are given below.

Ratio	2019	2018
Net Profit Ratio (%)	51.98	49.28
Return on Total Assets (%)	20.18	17.26
Return on Equity (%)	18.62	14.94
Current Ratio (Number of Times)	21:1	21:1

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

The Company's inventory consists from items that extended for a period of more than 1 year. Some of the items are held in the store for a period of 6 to 9 years. It was identified that those inventories are machinery spare parts which are kept until replaced or removed.

Management Comment

We are compelled to stock critical spare parts for major plant and equipment to ensure providing uninterrupted services to the Bank of Ceylon operations as importing of such spare parts may take 8 -12 weeks. The lead time to import spares may increase to over 04 months for spare parts of certain critical plants & equipment.

Recommendation

Recommended to have a formal policy to review periodically the level of inventories and identify slow moving and obsolete stocks.

3.2 Delays in adhere to Rules and Directions

Audit Issue

- (i) Due to Non- Compliance with Listing Rules 7.13.1 of Colombo Stock Exchange, the company started its delisting process in 21 March 2014. It has already elapsed six years period and the delisting process is still under progress.

Management Comment

Though the delisting process commenced in March 2014, it took time by the major shareholder, the Bank of Ceylon (BOC) to take a decision to comply with the above listing rule.

The Company convened an Extraordinary General Meeting on 04 April 2018 to obtain shareholders' approval for delisting and it was not successful in securing the shareholders' approval for delisting as required under Rule 5 of the SEC.

After re-evaluation of all options, the major shareholder has now advised the Company to recommence the delisting process by way of purchasing own shares by the Company.

The Company is now evaluating the legal feasibility of re-purchasing the shares held by the minority shareholders and to delist the Company.

Recommendation

Recommended to speed up the delisting process.

- (ii) The Bank Supervision - Chairman, Bank of Ceylon (BOC) by letter dated 08 March 2018, informed the Company to dispose the investment in KHP by 20 November 2020 as the said investment is outside the core business of BOC as determined by the Central Bank of Sri Lanka. However, due to elections and the outbreak of COVID 19 Pandemic in the country, the Management could not proceed with the process until June 2020. BOC vide letter dated 18 August 2020, informed the Company that to complete the divestment process by 30 June 2021 as the deadline extended by the Central Bank of Sri Lanka by their letter dated 30 July 2020.
- Department of Central Bank of Sri Lanka instructed to dispose BOC group's holding in Koladeniya Hydropower (Pvt) Ltd (full owned subsidiary of Property Development PLC) within the next three years period by the letter dated 20 November 2017 as it is outside the scope of the Core Business of the Bank. Due to elections and the outbreak of COVID 19 Pandemic prevailed in the country, the Management could not proceed with the process until June 2020. The Central Bank of Sri Lanka has extended the time target to complete the divestment process by 30 June 2021 by their letter dated 30 July 2020.
- Recommended to speed up the disposal process of Koladeniya Hydropower (Pvt) Ltd as directed by Central Bank of Sri Lanka.

3.3 Human Resources Management

Following differences were observed between approved carder by the Board of the Company and the actual staff as at 31 December 2019. The company was able to fill two executive level vacancies during the months of January and March 2020.

Audit Issue

Following differences were observed between approved carder of the Company and actual staff as at 31 December 2019 and company has not taken necessary action to make necessary recruitments.

Management Comment

Following vacancies are already filled on the given dates;

Recommendation

Take necessary steps to fill the vacancies exists.

Department	Approved Carder	Actual Carder as at 31.12.2019	Vacancies	
Executive Staff	15	11	04	(i) Engineering Assistant was recruited on 01 January 2020 (ii) Maintenance Engineer – Electrical

Maintenance Department	61	57	04
Finance Department			
Accounts Section	09	07	02
HR & Administration Department	16	14	02

on 02 March 2020

Attempts were made to fill other vacancies and unable to fill due to election and outbreak of COVID 19 Pandemic.

Actions will be initiated to fill the vacancies as and when required.