

## **Ocean View Development Company (Pvt) Ltd - 2020**

---

### **1. Financial Statements**

---

#### **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 2020 comprising the statement of financial position as at 31 December 2020 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 and 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 2020, 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 Audit Observations on the preparation of Financial Statements**

**1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

**1.5.2 Non-Compliance with Sri Lanka Accounting Standard**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
As per paragraph 51 of the Sri Lanka Accounting Standard on Property, Plant & Equipment (LKAS 16), the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with LKAS 08. However, useful life of the fully depreciated 9 motor vehicles amounting to Rs. 24,374,235 still in use had not been reviewed and accounted accordingly.	Company has used 20 percent depreciation rate per annum for Motor Vehicles which is stated in the Note 3.3.3 to the financial statements. Motor vehicles value Rs 24,374,235 which are fully depreciated, has been disclosed in the financial statements. Once the Company changes the accounting estimates as per the LKAS 8 relating to Motor Vehicles expenses arising as a result of change will be adjusted in the current financial statements.	The Company should comply with Accounting standard.

### 1.5.3 Accounting Deficiencies

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Payment of Gratuity during the year under review was Rs. 1,111,162. However, it had been erroneously adjusted to the gratuity provision account as Rs. 341,938. As a result, the provision for gratuity as at the end of year under review had been overstated by Rs.769,224.	Comments had not been given.	The Company should make necessary adjustment in the financial statement.
(b) Interest received during the year under review was Rs.4,521,147. However, interest income shown in the cash flow statement as cash flows from financing activities was Rs.3,993,204.	When calculation interest income for cash flow purpose we have to remove the IFRS working entry (fair value of staff loan) in order words present value of future cash flows of staff loan relating to distress loan interest income.  (since this is only a book value). Calculation of interest income for cash flow purpose is as follows.	The Company should make necessary adjustments in Cash flow statement.
	FD interest income            3,054,341 Saving account interest       6,215 Distress loan interest income                            358,589 Treasury Bill interest           14,859 Opening FD interest receivable                        1,699,735 Closing FD interest receivable                        (1,140,534) Interest income as per cash flow                           3,993,204	
(c) According to the statement of financial position, the change in trade and other payable balanced compared to the preceding year was Rs.15,132,946. However, it had been shown in the cash flow statement as working capital changes was Rs.15,606,453.	Comments had not been given.	The Company should make adjustment in Cash flow.

#### 1.5.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
The supporting documents relating to the Park Road Project that had been shown under the stock amounting to Rs. 25,183,741 had not furnish to audit.	Comments had not been given.	Actions should be taken to furnish the requested and relevant document for audit.

#### 1.5.5 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	5,013,830	4,341,529	Comments had not been given.	Action should be taken to reconcile the accounts.

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Action had not been taken to recover the long outstanding rent receivable balance amounting to Rs. 4,738,004 even as at end of the year under review.	Company has taken and continues to take actions which include ongoing discussions, cutting services, legal actions to recover rent.	Action should be taken to recover the receivable balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraphs 6.5.1 and 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	The draft Annual Report of the Company should be furnished to the Auditor within 60 days after the closure of the financial	Company's main shareholder National Housing Development Authority has been amalgamating Ocean View Development Company (Pvt) Ltd. Financial statements in	According to the relevant regulations action should be taken to furnish the draft annual report with the financial statement to the Auditor General and table the annual

However, the to their annual report report at Parliament. Company had failed to over the years. comply with the Therefore Ocean View requirement and as per Development Company Paragraph 6.5.3 of the (Pvt) Ltd has not circular, the Annual separately tabled a Reports related to the annual report I the year 2015 to 2019 had Parliament in order to not been tabled in avoid duplicating of parliament. financial information.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs 297,351,745 and the corresponding profit in the preceding year amounted to Rs. 7,926,505. Therefore an improvement amounting to Rs.289,425,240 of the financial result was observed. The reasons for the improvement are increasing in fair value of investment property Rs. 286,226,917.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Consultancy fees paid for Aramaya Road and Mahawaththa Housing Projects in the year 2015 and 2016 amounting to Rs.700,000 and Rs. 1,050,000 respectively. However, due to abandonment of those housing project, above expenditure had been written off without proper approval.	Expenses incurred for Aramaya road and Mahawatta housing projects are similar to cost incurred for winning business projects or Business promotional expenses which has been capitalized. However, in order to present accounts in a true and fair view manner those capitalized expenses transferred to P & L on the basis that these two projects not provide future economic benefit to the Company.	Action should be taken to write off balances with proper approval.
(b) Out of 44 rented houses, 22 houses had been rented out without agreements.	Comments had not been given.	Action should be taken to sign agreements with responsible parties.
(c) The rental value of the above houses had been valued by a valuer in year 2015 and the management had taken a	Valuation obtained in 2015 is use when a apartment become vacant and new customers are coming the rates of existing apartments	Action should be taken to recover the amended fees.

decision to increase the rented value by 5 per cent annually. However, contrary to that, the houses had been rented. As a result, the loss incurred to the Company from 11 rented houses was Rs. 2,980,010.

continued as per initial agreement with a 5% annual increment . Therefore valuation amounts and actual rented amounts can be varying for some apartments.

Further, when a apartment become vacant and there is no demand for price (valuation amount) OVDC has to negotiate rent value with prospective tenants. (After Easter Sunday bomb blast and current pandemic situation adversely affect renting of apartments. So in order to keep apartments occupied OVDC will have to offer discounted rates given the practical situation at that particular time.

In addition when comparing rent with valuation amount, it needs to be added with service charge as well. Because valuers normally consider the annual maintenance cost, renovation cost when deciding market values.

(d) A policy for charging of refundable deposits from the Tenants when entering in to agreements, had not been stipulated by the Company.

Comments had not been given

Action should be taken to obtain a refundable deposit.

(e) Twenty one (21) shops valued at Rs.25,183,741 in the Park Road housing project could not be sold due to a lawsuit and action had not been taken to sell 11 houses valued at Rs.75,719,339 and 25 plots of lands valued at Rs. 19,558,200 belonging to the Kahathuduwa housing project, one house valued at Rs.10,343,909 and 3 plot of lands valued at Rs. 2,919,158 belonging to the Maththegoda housing project since the year 2016. Further, a

Sale of 21 shops at park road project has been delayed due to case filled by apartment owner at the same premises. Therefore not correct to say action has not been taken.

Out of 11 houses at Kahathuduwa Housing Project 4 houses completely sold in year 2021 and advance had been made for sale another 3 houses.

For Delkanda request for proposed (REF) will be called in the year 2021 for apartment project.

Development activities must be expedite.

land extent of 100 perch situated at Delkada, and purchased for Rs.106,345,401 had not been used for any development activity since the year 2018.

- |     |   |                              |   |
|-----|---|------------------------------|---|
| (f) | The refundable deposits made by the Tenants amounting to Rs. 3,314,563 had not been settled even after lapse of 5 to 10 years after being vacated the Tenants from respective houses.   | Comments had not been given. | Action should be taken to settle the refundable deposits.                 |
| (g) | A sum of Rs. 876,625 had been incurred for the Maligawaththa housing project and another sum of Rs.10,954,477 had been incurred for the Nuwara Eliya housing project during the period from 2017 to 2019 and shown under working – progress account. However, any development activity had not been carried out during the year 2020. | Comments had not been given. | Development activities should be expedite.                                |
| (h) | Four legal cases had been filed against 4 Tenants by the Company those who one occupied houses illegal, and in turn two occupants and two staff officers of the Company had filed legal cases against the Company. The Company had incurred a sum of Rs.1,075,000 as legal expenses during the year under review.                     | Comments had not been given. | Management should always take decisions in a manner to avoid legal cases. |



### 3.2 Resources Released to Other Organizations

---

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
A motor vehicle valued at Rs.7,700,000 had been released to the State Ministry of Construction of rural housing and improvement of building material industries with the approval of Board of Directors.	Comments had not been given.	Proper approval should be obtain before releasing vehicles.