

## **Ocean View Development (Private) Company - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ocean View Development (Private) Company (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, 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 2023, 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 and 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 (Auditor's responsibility for 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 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 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 on the Preparation of Financial Statements

The entity is required to maintain a system of "well-designed" internal accounting controls sufficient to obtain reasonable assurance for execution of transactions with general and specific authorization of management, record transactions and maintain accountability for assets as required to prepare financial statements in accordance with applicable reporting standards, access to assets only with general and specific authorization of management, comparing the accountability for recorded assets with existing assets at reasonable intervals and take appropriate action against differences, if any.

### 1.5.2 Non-compliance with Sri Lanka Accounting Standards

Non – compliance with reference to the relevant Standards	Management Comments	Recommendation
(a) The current liability and income tax expense of the year had been overstated by Rs.2,931,276 due to the fact that, although the deferred tax liability of the year under review was Rs.1,256,262 according to Sri Lanka Accounting Standard No. 12, it was recorded as Rs.4,187,538 in the statement of financial position.	A correction will be made in the 2024 financial statements.	Sri Lanka Accounting Standards should be followed.
(b) According to Section 37 of Sri Lanka Accounting Standard No. 38, it had not been disclosed for contingent liability related to a case filed by a company requesting compensation of Rs.130 million.	A summary note in this regard will be presented in the forthcoming financial statements.	Sri Lanka Accounting Standards should be followed.

### 1.5.3 Accounting Deficiencies

Audit Observation	Management Comments	Recommendation
Although the cash flow from operating activities before working capital adjustments in the cash flow statement was Rs.26,480,572, the institution has stated it as Rs.21,147,340. As a result, cash flow from operating activities before working capital adjustments had been understated by Rs.5,333,232.	It will be taken into account in the preparation of future financial statements.	Financial statements should be correctly prepared.

## 1.6 Receivables and Payables

### 1.6.1 Receivables

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) At the end of the year under review, the non-recovered debtor balance over 01-05 years was Rs.4,975,913 and the non-recovered debtor balance over 05-11 years was Rs.9,071,144. Moreover these residents had vacated the rented houses as of the date of audit, and the files of resident who had to be paid of Rs.1,385,526 had been misplaced.	It has been referred to legal advice for recovery of rent arrears. Further action will be taken with the approval of the Board of Directors regarding the arrears of rent due to the closure of the institutions.	Actions should be taken for immediate recovery.
(b) Rs.9,746,935 of rents had not been recovered from residents who are already settled in 4 rented houses/business premises.	Arrears will be recovered in installments.	Action should be taken for immediate recovery.
(c) Rs.1,697,777 of withholding tax shown under receivables in the financial statements of the company more than 10 years and action had not been taken to recover the said balance.	It was due to lack of journal entries. Action will be taken by approval of the Board of Directors in future.	Action should be taken for immediate recovery.

### 1.6.2 Payables

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) Rs.2,628,407 of retention money included in other payable balances remained unsettled although a period of 03 to 09 years has passed. Retention money of Rs.2,191,375 payable to the private institute for the construction of the Matthegoda housing project had been unsettled since the year 2014 even though the construction had been completed.	The request has not been received from the service provider for this money.	The payable balances should be settled timely.
(b) Rs.910,840 of dividend payable to the Urban Development Authority for the year 2013 had not been settled over 10 years.	The payable amount was held against the receivable amount.	Action should be taken for immediate settlement.

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

	<b>Reference to Non-compliance Laws, Rules and Regulations</b>		<b>Management Comments</b>	<b>Recommendation</b>
(a)	Companies Act 2007			
(i)	Section 223(2)	Although the members of Directors Boards of the company should be registered with the Registrar of Companies, members of the Directors Boards had not registered since the year 2015.	Corrections will be made by the Company Secretary.	The provisions of the Act should be followed.
(ii)	Section 206.	Vacations and recruitments of Directors had been made without following proper procedure. It had directly affected the smooth functioning of the company.	Comments were not received.	The provisions of the Act should be followed.
(b)	Section 21.1 of Category II of Chapter XLVIII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Although an officer appointed as a formal disciplinary inquiry tribunal should submit the inspection report to the disciplinary authority immediately after conducting the related formal disciplinary investigation forthwith or within such period as may be prescribed by the Disciplinary Authority, more than a year had been spent for the disciplinary investigation against the legal officer of the company from 23 January 2023. However the investigation had not been completed and the report had not been submitted by the date of 28 February 2024.	The Board of Directors has instructed to conduct a formal disciplinary investigation and report immediately.	Establishment Code should be followed.

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| (c) | Paragraph 7.7 of Public Enterprises Circular No.01/2021 dated 16 November 2021 | The board of directors of the parent company should prepare guidelines to monitor the performance of subsidiaries. And also, the parent company should review the performance of the subsidiary companies at least once in a quarter and ensure that they provide a suitable return on investment. Nevertheless, the parent company of the company had not done accordingly. | Comments were not received.   | Circular should be followed.   |
| (d) | Paragraph 3.1 of Operations Manual of Public Enterprises Circular.             | Although the company should take approval from the General Treasury for the recruitment procedure prepared is suit to the company with the recommendations of the Line Ministry and approved by the Board of Directors, that recruitment procedure had been only approved by the Board of Directors.   | The provisions of the operational manual apply only to statutory boards, state corporations and state-owned companies established under a special or general Act. | It should be confirmed by inquiring the Public Enterprises Department. |

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a profit of Rs.265,199,028 and the corresponding previous year's profit was Rs.409,564,924. Therefore a deterioration of Rs.204,365,896 was observed in the financial result. This deterioration was due to a decrease in other income.

### 2.2 Trend Analysis of major income and expenditures items

- (a) The operating income of the year under review had been decreased by Rs.204.36 million compared to the year 2022. Due to underestimation of the fair value of the investment property (Bambalapitiya apartment complex) by Rs.202.05 million was mainly affected to these situation and, the rental income received from the building had been increased by 12.65 million.
- (b) The administrative expenditure in the year under review had been increased by Rs.6.92 million compared to the previous year increase of utility expenses by Rs.6.8 million had led to this situation.

### 2.3 Ratio Analysis

At the end of the year under review, the current assets ratio of the company was 2.4:1 and quick assets ratio was 1:1 and, these ratios in the previous year were 2.4:1 and 0.85:1 respectively.

### 3. Operational Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) The company had sold 21 shops in the Park Road building for Rs.70,025,000 to Main Land Global Company in the year 2019. An amount of Rs.20,025,000 had to be recovered from the buyer for that as of the end of the year under review. The buyer had filed a case against the company in the Colombo District Court demanding a compensation of Rs.130 million due to the non-supply of electricity and water to the shop. Further, it was observed that 21 shops which were completed in the year 2005 had been closed over the 19 years until the audit date of 28 February 2024 due to inefficient management decisions.	The reason for the closure of the Park Road shops is the pending cases No.CA/WR/540/19 and No.DSP/519/22.	It should be reached to an agreement and made a settlement.
(b) 09 Housing units agreements had been expired over 10 months to 06 years, it was observed that the rental house owners are staying without entering into new agreements.	A copy of the agreement has been sent for 06 houses. Requests have been made to increase the rental period for 2 houses. The legal and stamp duty required to enter into an agreement for one house has been paid.	Entering to agreements should be done immediately.

#### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Management Comments</b>	<b>Recommendation</b>
(a) The refundable deposits of Rs.9,125,000 received from investors for the first phase of the Ocean View Podium building had not been settled over 04 to 08 years. Further a suitable investor has not been selected for this construction and the construction work has not started.	Although these deposits have been obtained to select future investors, major investment projects had not been carried out after 2015.	The deposit money should be settled immediately.
(b) The resident of housing unit 05-C has been stayed in the house since 2009 without entering into an agreement after October 2018. And also, low rent of Rs.26,580 had been charged for this housing unit and there was no annual rent increase like other tenants. Furthermore, the resident was informed to enter into an agreement for two	It will be submitted to the Board of Directors and act accordingly.	A formal agreement should be made.

years from 01 January 2024 according to the board papers dated 26 October 2023 and its decision number 261-05, the monthly rent will remain unchanged as Rs.26,580 and service charge was Rs.7,500. The monthly rental assessment of this housing unit was Rs.240,086 but the agreed rent was Rs.26,580. As a result, it was observed that, the lost of rental income by the company for two contracted years was Rs.5,124,144 due to this.

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| (c) | The company was allocated Rs.39.5 million in the year 2022 to implement the 05 housing project as Nuwara Eliya, Maligawatta, Delkanda, Kegalle, Siyabalapitiya and Rs.1,012,411 had been spent in that year. Nevertheless provision was not made for those projects in the year under review and Rs.6,650 had been spent for the Delkanda project. Thus, it was observed that due to poor management decision the projects had started by the company without a long-term program to continue the projects may exist as uncomplete.   | The Nuwara Eliya and Maligawatta projects are to be carried out in the future. The Delkanda land is proposed to be sold. Preliminary recommendations are being received for the Walawwatta and Siyambalapitiya projects. Furthermore, due to the lack of proper settlement of lands, it has become difficult to carry out projects. | The perspicuity of the lands should be confirmed before implementing the projects. |
| (d) | Agreement had been made to enter in to the contract for Rs.90,000 as monthly rent and service charges for 05 years without increasing the annual rent for the housing unit 07-C with assessed value of Rs.194,285 and for housing unit 01-A with assessed value of Rs.249,320 as per the decisions of Board of Directors No.257-04 dated 31 July 2023. Although the normal procedure of the company is to increase the rent by 05 percent annually, no annual fee increase will be applied for these residents for a period of 05 years. Accordingly, it was observed that income of Rs.17,478,984 will be lost by the company. | Since the residents have filed a fundamental rights case and agreed to withdraw later, action will be taken subject to the board approval.  | The annual rent should be increased as favorable to the company.                   |



- (e) The arrears of rent by the private company who settle on rent basis in the 07-B and 09-D housing units was Rs.8,439,706 as at 31 March 2023. The board decision 3.1.1 – 001239 – 250 -07 had given the opportunity to pay this arrears in 36 equal installments. An installment of Rs.29,463 for unit 07-B and an installment of Rs.204,972 for 09-D housing unit had also been decided. Nevertheless, It was observed that during the review of debtor balances as at 31 December 2023 that, receivable balance of Rs.1,060,697 for 07-B housing unit was remained as same and the installments of Rs.204,972 for unit 09-D had not been paid as agreed.
- The Board of Directors has approved payment of the outstanding amount in installments. Favorable actions should be taken by the company.