

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 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 Flows 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

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 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) Deferred liability includes payable balances which has exceeded the deferred liability period as per the agreement between sub-contractor and the Company.	Contractor is yet to complete rectification of a defect in the contract work. However, in future management will take necessary action to review the deferred liabilities in periodic basis and to take appropriate action accordingly.	It is recommended that management should periodically review whether the retention balance includes any balance which has exceeded its retention period as per the agreement. Further, such amounts should be reversed back if there is no genuine liability.
b) Inventories includes long standing items which should be classified as tools under Property, Plant and Equipment and depreciated over the useful life time of the asset.	Management will take necessary action to analyze in detail whether these longstanding spare parts can be considered as Property Plant and Equipment (PPE) in terms of materiality/significance, practicality, separately from inventories and giving due consideration for the depreciation policy of spare parts in PPE.	It is proposed that management should properly identify the assets that can be capitalized by referring to the long standing inventory items. Further, the management should assess the useful life time of those assets and depreciate accordingly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Rule 7.13 of the Colombo Stock Exchange (CSE) Listing Rules.	Not Complied with minimum Public Holding Requirement of 20 percent.	The Company and Bank of Ceylon (Parent Company) in the process of evaluating the possibility of revising the terms of the delisting exit offer and upon the conclusion of such evaluation, the Company will take the necessary steps to present the delisting proposal to the shareholder with revised offer. The Company expects to commence the formalities pertaining to the delisting process in due course.	Necessary action should be taken to comply with CSE Rules or to commence the delisting process.

1.7 IT General Controls

Audit Issue	Management Comment	Recommendation
a) Security audit logs are not enabled for the Time attendance and maintenance management system. Hence, periodic reviews of security logs were also not carried out.	The audit trials and log monitoring will be implemented for the DMS – Time Attendance & Maintenance Management system, once the system is in operation before end of the month October 2019.	The Security Audit logs should be configured to log user activities and the privileged tasks and the logs should be periodically reviewed.
b) Although a comprehensive password policy is in place, the appropriate password parameters have not yet been implemented in the respective systems.	Appropriate password parameters in respect of critical business applications (i.e systems) will be implemented on or before October 2019 giving due consideration for the system specified password features. Password parameters in respect of windows will be implemented before end of the year 2019.	The Password policy documented in the IT Policies of the Company should be implemented in practice in the systems in use.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 497,794,653 and the corresponding profit in the preceding year amounted to Rs. 469,936,514. Therefore, an improvement amounting to Rs. 27,858,139 of the financial result was observed. The reasons for the improvement are increase of other operating income and increase of finance income during the year.

2.2 Trend Analysis of major Income and Expenditure items

The following table indicates a summary of the financial results of the company in the year under review and the preceding three years.

Year	2018	2017	2016	2015
Revenue (Rs.)	710,777,596	710,777,596	619,182,545	527,587,494
Profit after Tax (Rs.)	497,794,653	469,936,514	415,723,228	348,743,194

2.3 Ratio Analysis

According to the Financial Statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

Ratio	2018	2017
Net Profit Ratio (%)	49.28	55.16
Return on Total Assets (%)	17.26	15.39
Return on Equity (%)	14.94	13.51
Current Ratio (Number of Times)	21:1	13:1

As per the Calculation, it indicates that, even though the all other ratios are showing an improvement when compare to 2017, net profit ratio has been decreased by 5.88 per cent due to the increased of staff cost during the year 2018.

3. **Operational Review**

3.1 **Human Resources Management**

Audit Issue	Management Comment	Recommendation
a) As per the Section 9.2(d) 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.	The Management will take action to register the Organisation Chart and the Approved Cadre with the Department of Public Enterprises, General Treasury.	Necessary action should be taken to comply with PED 12.
b) As per the Section 9.3.1 of the Hand Book on Public Enterprises Guideline for Good Governance issued under Public Enterprises Circular No. PED 12 dated 02 June 2003, Scheme of Recruitment (SOR) has not been approved by the Ministry with the concurrence of the Department of Public Enterprises, General Treasury.	Human Resource Policy Manual which includes SOR is being reviewed by the Management and it will be tabled before the Board for its approval once it is completed. The Board approved SOR will be submitted to Department of Public Enterprises (PED) for their concurrence. On receipt of the concurrence from PED for the SOR, it will be submitted to the Line Ministry for approval.	Necessary action should be taken to comply with PED 12.