

Ocean View Development Company (Pvt) Ltd - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Ocean View Development company (Pvt) Ltd for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of profit and loss statement, 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 2019, 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
The payments of employee benefits amounting to Rs.416,104 and interest income received amounting to Rs.2,077,071 had been over stated in the cash flow statement. Further, the actual finance lease payment amounting to Rs.5,381,861 had been erroneously shown as Rs.6,318,139 in the cash flow statement as cash inflows of the year under review.	Loan and other recovered amount from gratuity was adjusted as employee benefit and same amount of interest income adjusted to profit before tax and investment activities . Further finance lease amount is taken from difference of two balance sheet.	Cash flow statement should be prepared according to the requirement of 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.		
(a) Amount Payable to Urban development authority.	672,301	-	672,301	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.
(b) Amount receivable from Urban Development Authority.	-	5,013,830	5,013,830	OVDC has not verified Rs. 5,013,830 receivable from UDA.	Action should be taken to reconcile the balance.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not	Management Comment	Recommendation
Inventory (Park road Housing Project)	Rs. 25,183,741	Source Documents	Non availability of documents to support, Rs. 25,183,741 which was completed over 10 years ago.	Documentary evidences should be maintained properly.

1.6 Accounts Payables

Audit Issue	Management Comment	Recommendation
Other payables amounting to Rs.3.2 million had not been brought to the accounts and shown in the financial statements of the year under review.	Final payment approval not granted.	Reclated liabilities should be identified and brought to accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Public Enterprise Circular No. PED/12 dated 02 June 2003			
(i) Chapter 5.1.3	The Company had not forwarded the updated copies of the corporate plan which approved by the Board to the line Ministry, Department Public Enterprises, General Treasury and Auditor General.	Approved budget had been submitted.	Action should be taken to forward updated Corporate Plan as required by the circular.
(ii) Chapter 7.3	In forty two instances the Company had been paid Rs. 15,000 as festival advances for each employee and in nine instances over Rs 250,000 had been paid as distress loan for each employee based on the Company's Financial and Management Manual which had	Company follows the Board approved manual at the time. Company was not under any Line Ministry.	Loan and advances to the employees should be paid with proper approvals and within the fixed limits.

not been approved by the line Ministry and the Department of Public Enterprises.

(iii) Chapter 7.4	The Company had not appointed an audit committee and a training committee for the year 2019.	The Audit Committee is formed in the year 2020 under the new management	Action should be taken to setup Committee as required by the Circular.
(iv) Chapter 9.2 and 9.3	Without approved scheme of recruitment, cadre and an organization chart the Company had been made 07 appointments and 06 promotions during the year under review. And also, one promotion of above had been given before the completion of probationary period of the employee.	Any new position of the company is created with board approval as per the stipulated procedure in the company.	Action should be taken to make relevant approval as require by the Circular.
(b) Public Enterprise Circular No PED/03/2015 of 17 June 2015.			
(i) Paragraph 2.2	Without obtaining the approval of the Secretary to the Line Ministry with the concurrence of the Finance Ministry, the Company had paid monthly allowance of Rs.256,250 to the Chairman of the Company.	Chairman allowances and the directors' allowances were paid according to Company manual as per the Circular No: PS/SP/Circular/02/2020 issued by Presidential Secretariat.	Allowance should be paid according to the provisions in the Circular.
(ii) Paragraph 2.8	Without obtaining the approval from the General Treasury, the Company had paid of Rs.450,000 bonus to the Board Members.	Company was not under any line ministry when approved the manual by Board of the Company. It follows the said manual.	Bonus should be paid having the appeovel from the treasury.
(c) Public Finance Circular No 02/2015 of 10 July 2015.			
(i) Paragraph 03	Without appointing a special verification board and the required approval the Company had disposed four vehicles.	The board approval obtained to dispose the vehicles.	Action should be taken to appoint a verification board as required by the Circular.

(ii) Paragraph 04 (b)	Above 04 vehicles which had been purchased in year 2015 had been sold for Rs. 12,300,000 though there were no technical failures.	Action will take in future to follow any applicable regulation.	Action should be taken to make approval as required by the Circular.
(iii) Paragraph 05	Without appointing a committee with inspector of Motor Vehicle of the Department of Motor Traffic, the minimum selling price had been determined based on the valuation made by a private valuator. Further, selling prices were lower than the above valuation.	The vehicle valuation was done by a reputed and recognized valuator of motor vehicles. The Selling price was decided from the open tender and vehicle was sold to highest bidder.	Action should be taken to appoint a committee as the Circular.
(iv) Paragraph 12	Details about the disposed vehicles had not been submitted to the Auditor General and other parties as required by the circular.	All relevant details have been submitted for audit purpose.	Action should be taken as the Circular.
(d) National Procurement Agencies Circular No 08 dated 25 January 2006.			
(i) Paragraph 04	The Company had not prepared a master and a detailed procurement plan.	Action Plan is prepared as per the format given by the Ministry.	Action should be taken to prepare a master and detailed procurement plan as required by the Circular.
(ii) Paragraph 8.9	Without a written agreement the Company had been spent a sum of Rs. 2,189,254 to obtain cleaning services from a Servicing Company.	An offer letter has been given to the service provider.	Written agreement should be signed by the responsible parties.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.7,926,505 and the corresponding profits in the preceding year amounted to Rs.89,406,126. Therefore, an deterioration amounting to Rs.81,479,621 of the financial result was observed. The reasons for the deterioration were decrease of investment property sales and property rentals.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Distress loan balances of seven officers of the Company aggregating to Rs. 1,048,796 had remained without been recovered from 2 to 12 years.	These files already in the legal division. Those are interdicted, absent and terminated.	Management should take early attention to settle this situation.
(b) Agreements had not been signed with tenants of Block 5C and 15A; Therefore, the Company had been failed to increase the annual rental.	Board of Directors has given approval to continue with same rate in the absence of renewal agreement.	Written agreement should be signed by the responsible parties.
(c) Without considering the market valuation made in year 2015, Five units of building had been rented out at a monthly rent of Rs. 299,271.	Board has approved for concessionary rate.	Management should take early attention to settle this situation.
(d) Eleven houses with twenty five land blocks and twenty one shops located at Kahathuduwa and Park Road valued at Rs.94,848,962 and Rs.25,183,741 respectively had remained without been sold since year 2016.	Tender process already completed to sell 03 houses of Kahathuduwa and Park Road houses only part payment has been made.	Management should take early attention to settle this situation.
(e) Refundable deposits of vacant tenants amounting to Rs.7.53 million had remained without been settled from 1 to 10 years.	Company policy is the request is needed from the same person or entity who has make the deposit.	Management should take early attention to settle this situation.