

Ocean View Development Company (Pvt) Ltd - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ocean View Development company (Pvt) Ltd for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 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 2021, 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

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) According to paragraph 51 of LKAS 16, the assets used by the Company should be reviewed and re-evaluated annually over a lifetime. However, the company has changed vehicle depreciation rate was from 20 percent to 10 percent without reviewing the life time and recalculating the value of the vehicles. fully depreciated 02 vehicles and other 03 vehicles depreciated rates have been changed from the date of purchases and adjusted to the past in contrast to LKAS 08. Accordingly, the depreciation for the previous years of Rs 14,687,050 was debited to the assets for the year under review and credited to the profit and loss account.	This 14,687,050 which has been debited to assets and credited to profit and loss will be re calculated based on the remaining life time of the assets and will adjust the accounts from year 2022 accounts. Apart from this we again emphasize the fact that there are no provisions in the standard (LKAS 16) to revalue the fully depreciated assets since the Company using cash model PPE.	The Company should comply with Accounting standards.

- (b) The lease value of 02 vehicles purchased on lease basis in the year 2019 is Rs. 11,700,000 and the lease value should have been adjusted to the present value as per Section 26 of the Financial Reporting Standards No. 16 of Sri Lanka when keeping accounts in financial statements, but it was not so.
- At the inception of the lease, present value of the minimum lease payments at least substantial or all of the fair value of the asset. Therefore Rs.11,700,000 was not taken as cost but lower of fair value or present value of future minimum lease payments. When we use implicit interest rate for discount factor which is recommended by Standard , present value of future lease rentals payable is equal to actual lease liability . This is the method used by the Company and in the balance sheet amount recognized is the net of interest amount which equal to fair value of lease liability.
- Present value of this liability need to be shown in the financial statement.

1.5.3 Accounting Deficiencies

Audit Issue

When calculating cash flow generated from operating activities, non-cash expenses and income should be adjusted to the profit. However, the withholding tax adjustment of Rs. 4,371,266 had not deducted to calculating the operating profit and it had been adjusted to the operating profit.

Management Comment

That it be does not materially affect the presentation of financial statements.

Recommendation

When calculating, operating profit had not deducted. Items should not be adjusted to the calculating cash flow generating activities.

1.5.4 Documentary Evidences not made available for Audit

Audit Issue

Journal vouchers along with the relevant supporting documents had not submitted for audit verification in respect of eight hundred forty-eight journal entries valued at Rs 443,365,098.

Management Comment

In our view most of these entries are routine entries as it is the only way of recording it Quick books software. Generating journal voucher for each of these entries is a unnecessary stationary cost according to company view point, because if a journal voucher is printed it has to be sign by same two officers like in the journal entry list

Recommendation

Documentary evidences should be maintained properly.

currently printed. Also in the software there is no option to print a journal voucher as well. so it has to be done manually anyway. This can be also forward as a Management letter point rather than qualification point.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Out of 40 apartments in the Ocean View Tower Building, only 30 apartments had been leased as at the end of the year under review and out of that only 13 apartments had been leased continuously. Lease rentals receivable from four tenants who have been living in apartments over five years was Rs. 15,489,813 and lease rentals receivable from five tenants who had vacated their apartments during the year was Rs. 18,279,040. However, such receivables had not been recovered even as at end of the year under review.	Out of this Rs.15,497,813 action for Rs 4.8 Million will have to be taken after the legal case in supreme court.	Action should be taken to recover receivable as early as possible.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraphs 3.1 of the Public Administer Circular No. 30/2016 dated 29 December 2016.	The consumption of fuel must be re-tested after a period of 12 months from each fuel test or after running a distance of 25,000 km or after carrying out a repair to the engine which over	It is not correct to say company has not conducted fuel test on vehicles but it is more accurate to say it was not properly documented.	According to the relevant regulations action should be taken to submit information to the Auditor General .

occurs first. However the fuel tests had not been conducted on six vehicles as required by the Circular.

- (b) Paragraphs 3.13 of the Public Administer Circular No. 41/90 dated 10 October 1990. A report of the mechanical engineers report had not been obtained in respect of four vehicle repaired at a cost of Rs 678,751 . Company has obtained a mechanical report from mechanical engineer para major repair. According to the relevant regulation action should be taken.
- (c) Paragraphs 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 The draft Annual Report of Company should be furnished to the Auditor General within 60 days after the closure of the financial year. However, the Company had failed to comply with the requirement OVDC is subsidiary of UDA and NHDA prepare financial statement including information of OVDC. Therefore Company has not prepared separate annual report. According to the relevant regulations action should be taken to furnish the draft annual report with the financial statement submit to the Auditor General.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs 267,619.268 and the corresponding profit in the preceding year amounted to Rs.297,351,745 . Therefore an deterioration amounting to Rs.29,732,477 of the financial result was observed. The reason for the deterioration are decrease of other income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In the year 2012 the Board of Management had taken a decision to buy 398. 1 perches land at a cost of Rs.19,219,920 in Kahathuduwa area to build 11 houses and the extent of a house is 10 perch. The total estimated construction cost of the project was Rs.45,862,446. However, the actual cost incurred to complete the project in year 2014 was Rs	This 36 number of houses will not be constructed at once, initially construction of 11 houses commence and Company aimed house pre sale method to complete the total number of houses.	Development activities must be expedite.

77,350,570 and only 5 houses had been sold for Rs. 54,876,084 as at 31 March 2022. However, despite the above situation the Board of Management had taken a decision and initial steps were taken on 12th October 2021 to build another 36 new houses in the same land.

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| (b) | The company had entered into a bilateral agreement with the Nuwara Eliya municipal council on 2016 to construct a mixed development project on an one acre and 44.68 perches land in Nuwara Eliya from 2016 to 2019. Rs 10,954,477 was spent on soil testing , preliminary planning, surveying and publicity of the land . However, the ownership of the land could not be acquired until the end of the year under review to commence the project. | At the time of initial agreement was signed Nuwara Eliya Municipal Council also on the view that particular land is owned by MC . However it is only OVDC subsequently found that land is a crown land. Since then work in progress for the transfer of land to municipal council for the said mix development project currently coordinating the process of transfer to speed up the commencement of project. | Development activities must be expedite. |
| (c) |)According to the memorandum of understanding agreement entered on 9 th June 2016 by the Company with the National Housing Development Authority, it was proposed to construct an apartment complex consisting of 100 housing units in the Maligawatta area and the Company had incurred a sum of Rs 934,683 as at the end of the year under review, without acquiring legal ownership of the land. | Maligawatta land to National Housing Development Authority is also in the process. Once transfer is done OVDC and NHDA to commence Maligawatta Project | Development activities must be expedite. |
| (d) | Land extent of 100 perch situated at Delkanda had been purchased for Rs. 106,345,401 had not been used for any development activity since year 2018. | Company is in the final stage of calling RFP for constructing apartment project at Delkanda. | Development activities must be expedite. |

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Seven (07) houses had been rented out without written agreements.	Company has informed to this tenant several times, about the delay in signing agreement.	Written agreement should be signed by the responsible party.
(b) During the year under review, nine apartments had remained without been leased out. As a result, the estimated rental income lost to the Company was Rs. 12,998,948 and the management had failed to find tenants even as at the end of the year under review.	The Company was able to find customers for a 08 number of apartments upto April 2022.	Development activities must be expedite.

3.3 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
The Company had been paid a sum of Rs 353,655 as maintenance expenses during the year under review. For the motor vehicle released to the state Ministry of construction housing.	Comments had not been given.	Company should reimburse the expenses from Ministry.