

BOC Property Development and Management (Private) Limited -2022

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the BOC Property Development and Management (Private) Limited (the “Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 2022 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 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 intends 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 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 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 compiled 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 nappropriate valuation or Estimation

Audit Issue	Management Comment	Recommendations
<p>The Company has fully depreciated Property, Plant & Equipment and Investment Property which are still in use amounting to Rs.6,473,266 and Rs. 238,677,326 respectively as at 31 December 2022. However retrospective adjustments had not been made in the financial statements by reassessing the useful life of these assets.</p>	<p>Fully Depreciated assets has been disclosed in the financial statements.</p> <p>Retrospective adjustments being discussed in consultation with Auditors.</p>	<p>It is recommended to assess the value of these assets using the current market value or reassess the useful life of these assets.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

- (i) As per the Lease Agreements with all lessees, the rent shall be paid in advance on the first day of each month. However rent receivable balance of the Company as at 31 December 2022 was Rs.18,115,075 from which Rs.9,754,221 or 54 per cent were in arrears over 90 days period. Hence it was observed that the Company was unable to collect the lease rentals as agreed in the lease agreements. . Out of the total arrears lease rentals, Rs. 9,581,823 or 53 per cent is from Merchant Tower-Kollupitiya Building and the balance 47 per cent is from Ceybank House Kandy. The age analysis of receivables are shown below.

Management Comment

Recommendations

All the receivables shown below are fully settled other than Engenuity (Pvt) Ltd, Sri Lanka Institute of Information Technology and SLIIT Academy (Pvt) Ltd. The receivables from Sri Lanka Institute of Information Technology and SLIIT Academy (Pvt) Ltd are fuel surcharges introduced during fuel crisis.

Description	Outstanding Balance (Rs.)					90	Total
	1-30 Days	31-60 Days	61 – 90 Days	Over Days			
Tenants in Merchant Tower- Kollupitiya							
1. Merchant Bank of Sri Lanka & Finance PLC	2,001,865	-	-	-	-		2,001,865
2. Bank of Ceylon Western North Province	287,473	-	-	-	-		287,473
3. Bank of Ceylon Super Branch	344,448	-	-	-	-		344,448

4.	Sri Lanka Institute of Technology	Information	983,451	-	-	188,813	1,172,264
5.	SLIIT (Pvt) Ltd	Academy	1,120,095	-	-	174,360	1,294,455
6.	Engenuity Ltd	(Pvt)	-	-	-	3,847,913	3,847,913
7.	Dialog PLC	Axiata	101,933	39,221	-	-	141,154
8.	Mobitel (Pvt) Ltd		50,985			-	50,985
9.	Bharti Lanka (Pvt) Ltd	Airtel	37,751	1,474	-	-	39,225
10.	Public Commission Sri Lanka	Utility of	311,429	-	-	-	311,429
11.	Quess (Pvt) Ltd	Corp Lanka	61,207	-	-	17,364	78,571
12.	Brani's Cafeteria		12,041	-	-	-	12,041
Total - MT (A)			5,312,678	40,695	-	4,228,450	9,581,823

Tenants in Ceybank House - Kandy

1.	Bank of Ceylon Central Office	Provincial	270,830	270,830	379,162	2,275,501	3,196,323
2.	Bank of Ceylon Super Branch – Kandy	Grade	695,553	695,553	695,553	3,250,270	5,336,929

Total - Ceybank (B)	966,383	966,383	1,074,715	5,525,771	8,533,252
Grand Total (A+B)	6,279,061	1,007,078	1,074,715	9,754,221	18,115,075

- (ii) Although the lease agreement of Engenuity (Pvt) Ltd had ended on December 2021, the outstanding balance of Rs.3,847,913 had not been recovered up to the date of audit on 21 August 2023.

Legal actions has been initiated to recover outstanding from Engenuity (Pvt) Ltd. (Case No. DMR 1375/23)

It is recommended to take suitable action to recover the outstanding balance without loss.

1.7 Cash Management

Audit Issue

It was observed that the company is always maintaining a higher current assets position and does not focus on profit making on long term investments. As per the following table the percentages of current assets to the total assets has gradually increased from 49 per cent to 64 per cent from 2018 to 2020 and it came down to 43 per cent in year 2021. However, due to rapid decrease of investment in equity and increase of inventories during the year 2022, the current assets ratio again has gone up to 50 per cent during the year under review.

Management Comment

Board approval has been obtained to invest in another building Management Project.

Recommendations

It is recommended to maintain a balance between liquidity and profitability.

Description	2022	2021	2020	2019	2018
Total Assets (Rs.000)	2,169,300	2,112,041	2,050,868	1,927,314	1,814,396
Current Assets (Rs.000)	1,075,678	901,564	1,310,738	1,155,591	882,841
Cash & Cash Equivalent (Rs.000)	1,384	2,390	6,017	681	1,635
Other Current Financial Assets/ Short Term Investment (Rs.000)	1,043,078	883,942	1,281,361	1,123,089	863,099
Current Assets as a % Total Assets	50	43	64	60	49

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 279 million and the corresponding profit in the preceding year amounted to Rs.189 million. Therefore, an increase amounting to Rs.90 million of the financial result was observed. An increase of finance income by 178 per cent and decrease of administration and other operating expenses by 27 per cent were the main reasons for the increase of the financial result during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/(Decrease) (Rs.)	Variance %	Reason for the Variance
Finance Income Interest on Fixed Deposit	125,401,441	178	High interest rate given for fixed deposits.
Administration and Other Expenses	(4,752,030)	27	Reversal of bad debt provision due to money received from a debtor.
Tax Expenses	59,688,671	92	Taxable income had increased due to increase of investment income.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review and the preceding 04 years' period are given below.

Year	2022	2021	2020	2019	2018
Net Profit Ratio (percentage)	74	64	71	66	67
Current Assets Ratio (Number of time)	10.93	18.29	23.95	34.54	32.22
Net Current Assets to Total Assets (Number of Times)	0.45	0.40	0.61	0.58	0.47

3. Operational Review

3.1 Operational Inefficiencies

	Audit Issue	Management Comments	Recommendation																				
(i)	<p>It was observed that four numbers of lease agreements were expired and no renewed agreements were available up to the date of audit on 21 August 2023. Details of those expired lease agreements are given below.</p> <table border="1"> <thead> <tr> <th></th> <th>Lessee</th> <th>Agreement No.</th> <th>Period of Agreement</th> </tr> </thead> <tbody> <tr> <td>01</td> <td>BOC Super Grade-Kandy</td> <td>266</td> <td>Expired in 2021</td> </tr> <tr> <td>02</td> <td>BOC Western Province - North</td> <td>353/3050</td> <td>01.01.2021 to 31.12.2022</td> </tr> <tr> <td>03</td> <td>BOC Central Province</td> <td>267/117/2073</td> <td>01.12.2019 to 31.12.2020</td> </tr> <tr> <td>04</td> <td>Mobitel</td> <td>194</td> <td>18.02.2018 to 17.02.2023</td> </tr> </tbody> </table>		Lessee	Agreement No.	Period of Agreement	01	BOC Super Grade-Kandy	266	Expired in 2021	02	BOC Western Province - North	353/3050	01.01.2021 to 31.12.2022	03	BOC Central Province	267/117/2073	01.12.2019 to 31.12.2020	04	Mobitel	194	18.02.2018 to 17.02.2023	<p>1 & 3. BOC Super Grade / BOC Central Province Agreement Nos.266 & 267/117/2073 – These two agreements renewed for 2021 and 2022-2024. Renewal Agreements sent to BOC Central Province office and yet to receive signed Agreements.</p> <p>02.BOC Western Province Agreement No.353/3050 – Draft renewal Agreement sent for confirmation 2023/24 – pending confirmation from BOC Western Province (N) office.</p> <p>04.Mobitel Lease Agreement No.194 – Negotiation for rental Value in progress and expected to complete within September 2023</p>	<p>It is recommended to sign a lease agreement/ renewal prior to commencement of the lease period.</p>
	Lessee	Agreement No.	Period of Agreement																				
01	BOC Super Grade-Kandy	266	Expired in 2021																				
02	BOC Western Province - North	353/3050	01.01.2021 to 31.12.2022																				
03	BOC Central Province	267/117/2073	01.12.2019 to 31.12.2020																				
04	Mobitel	194	18.02.2018 to 17.02.2023																				
(ii)	<p>As per the lease agreement, rent will be reviewed at the end of every two (02) years upon mutual agreement made between the Lessor and the Lessee by obtaining a fresh valuation from Bank's Panel of Valuers. However, fresh Valuation Reports for following tenants have not been obtained from Bank's Panel of Valuers for the year 2022 as per the agreement.</p> <ul style="list-style-type: none"> ○ Quess Corp Lanka (Pvt) Ltd ○ BOC Western Province-North ○ Ceybank Asset Management (Pvt) Ltd ○ Merchant Bank of Sri Lanka & Finance PLC <ul style="list-style-type: none"> ▪ Agreement No – 307 ▪ Agreement No -310 ▪ Agreement No – 206 ▪ 	<p>Already made arrangements to carry out rent valuation from BOC Panel of Valuers for both buildings in order to revise the rent /service charge for next renewal which falls on 01st January 2024.</p>	<p>It is recommended to comply with the clauses included in the Rent Agreements.</p>																				

(iii) As per the lease agreements with all lessees, a penalty of 20 per cent from the monthly rental is charged from the tenant if they are unable to pay the monthly rental before 14 days from the first day of each month. Though instances were observed that the tenants were delayed the payments for more than 03 months period, no penalties were charged from them for the delayed payments. Details of lessees are given below.

- o Sri Lanka Institute of Information Technology
- o SLIIT Academy (Pvt) Ltd
- o Qess Corp Lanka (Pvt) Ltd

Although the penalty clause is available in all Lease Agreements, penalties were not charged from tenants since inception.

It is recommended to impose a penalty on delayed lease payments as mentioned in the lease agreements.

(iv) Though lease agreements need to be signed prior to commencement of the lease period, 19 instances relating to the year 2022 were observed that lease agreements were signed after the commencement of specified lease period. The details are given below.

	Name of the Lessee	Lease Agreement No.
01	Dialog Axiata PLC	335
02	Qess Corp Lanka (Pvt) Ltd	309
03	MBSL & Finance PLC- 17 th Floor	359
04	BOC Western Province- North	353/3050
05	SL Institute of Information Technology	344
06	SLIIT Academy (Pvt) Ltd	383
07	BOC Super Grade – Kollupitiya	348/1450
08	MBSL & Finance PLC- 9 th Floor	307
09	MBSL & Finance PLC- 8 th Floor	310
10	BRANI's-Cafeteria	351
11	Public Utilities Commission Sri Lanka	355
12	Mobitel	194
13	Bharti Airtel Lanka (Pvt) Ltd.	331

Generally, we commence the Agreement renewal process 3-4 months prior expiration of existing Agreements. Most of our tenants are BOC and BOC Subsidiaries and staying with us for long periods. Delays for the execution of Agreements occurs due to various reasons but we get written /verbal confirmation for the Agreements before expiration. Also all tenants continue to pay the relevant rentals and other payments during the process.

It is recommended to sign a lease agreement prior to commencement of the lease period.

14	MBSL & Finance PLC	346
15	MBSL & Finance PLC- Mezzanine Floor	347
16	MBSL & Finance PLC	345
17	Ceybank Asset Management (Pvt) Ltd	314
18	MBSL	204
19	MBSL & Finance PLC- 11,14,18,10 & Ground Floor	385

4. Accountability and Good Governance

4.1 Corporate Plan and Action Plan

Audit Issue	Management Comments	Recommendation
(i) A strategic planning process is carried out by every company normally for a five years' period which helps for the company to achieve its objectives and to ensure the optimal utilization of its resources. However strategic plan has not been prepared by the Company for the five years' period from 2022 to 2026.	The Company did not have a corporate plan since inception. A new corporate plan was prepared for 2023-2025.	It is recommended to prepare a corporate plan to achieve the objectives and to ensure the optimal utilization of resources of the company.
(ii) An action plan is prepared by a Company for a particular year by setting strategies, specific activities and actions that need to be completed in order to achieve the objectives established through the Strategic Plan. The responsibility for carrying out such activities are also assigned to the relevant authorities with a timeline for completion and expected financial estimate. However, an action plan has not been prepared by the Company for the financial year 2022.	An action plan is included in the corporate plan 2023-2025.	It is recommended to prepare an action plan for a particular year to achieve the objectives established through the strategic plan.

4.2 Internal Audit

As per the Internal Audit Reports issued by the internal auditors of the company during the year 2022, the following deficiencies were observed.

Area	Observation	Management Comment	Recommendation
Information Technology	Unavailability of password policy and non-renewal of password on regular basis. User computer passwords are not renewed automatically except for the server.	The Board Approval was obtained to prepare a suitable IT policy in liaison with MBSL IT department.	It is recommended to develop and implement an IT policy and procedures. As well to allocate an IT

specialist to handle IT related activities in a proper way.

Non -availability of an e-mail policy which enabling the staff to assess G-mail in their given user computers.

Non availability of access control over the external devices on the computers.

Failure to restrict user computers with controls for preventing installation of unauthorized software programs.

Non availability of up to date versions for DMS system and the “Busy” system.

Placing the backup hard disk in the same location along with the server.

Unavailability of Firewall and Virus Guard for 2 user computers.

Maintaining the data backup process by the storekeeper manually.

Performance Appraisal

Managers’ appraisals were not performed and empty appraisal forms were filed for both 2021 and 2022.

With the appointment of CEO 25.08.2022, the process started from 2023.

It is recommended to evaluate the performance appraisal in a proper manner.

Job Description and Job Specification (As per Section 15.1.2 of the Procedure Manual)

Unavailability of job specifications were observed.

Preparation is in progress.

Recommended to prepare as per the procedure manual.

Rented out space

A part of the floor area of the 10th floor has been rented to the Barnee’s canteen at Rs.12,500 per month without the floor area basis - which is far below the average rate prevailed in Colombo 03.

The specified rate was given during Covid 19 effected period and the rate increased to Rs. 17,500/- with effect from July 2023.

It is recommended to consider the prevailing rate in the market.