

BOC Property Development and Management (Private) Limited -2023

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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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 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 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 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 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue

Management Comment

Recommendations

- (i) As per the Lease Agreements with all lessees, the rent shall be paid in advance on the first day of each month. However, trade receivable balance of the Company as at 31 December 2023 was Rs.12,146,196 from which Rs.4,211,086 or 34.67 per cent were in arrears over 90 days period. Hence it was observed that the Company was unable to collect the trade income as agreed in the lease agreements. Out of the total trade receivable, Rs. 12,062,854 or 99.3 per cent is from Merchant Tower-Kollupitiya Building and the balance 0.7 per cent is from Ceybank House Kandy. The age analysis of trade receivables are shown below.

All the receivables shown below are fully settled other than Engenuity (Pvt) Ltd (Rs. 3,847,913), Sri Lanka Institute of Information Technology (Rs. 188,813) and SLIIT City Uni (Pvt) Ltd (Rs. 174,360). The receivables from Sri Lanka Institute of Information Technology and SLIIT City Uni (Pvt) Ltd are fuel surcharges introduced during fuel crisis.

It is recommended to take all necessary steps to collect trade receivable in due time.

| Description | Outstanding Balance (Rs.) | | | | |
|---|---------------------------|------------|--------------|--------------|-----------|
| | 1-30 Days | 31-60 Days | 61 – 90 Days | Over 90 Days | Total |
| Tenants in Merchant Tower- Kollupitiya | | | | | |
| 1. Merchant Bank of Sri Lanka & Finance PLC | 2,607,549 | - | - | - | 2,607,549 |
| 2. Bank of Ceylon - Western Province North | 277,903 | - | - | - | 277,903 |
| 3. Bank of Ceylon Super Grade Branch | 338,184 | - | - | - | 338,184 |
| 4. Sri Lanka Institute of Information | 2,033,651 | - | - | 188,813 | 2,222,464 |

Receivable breakup as follows,
 Rent - Rs. 3,501,844
 WHT Receivable (Dec)- Rs. 1,714,237
 Reimbursable- Rs.6,366,942
 (Out of this, Rs. 6,160,492 invoiced on 31.12.2023)
 Electricity Surcharge- Rs. 363,173
 Others- Rs. 200,000

| | | | | | | |
|---|--|------------------|---------------|------------|------------------|-------------------|
| Technology | | | | | | |
| 5. | SLIIT City Uni (Pvt) Ltd | 1,677,065 | - | - | 174,360 | 1,851,425 |
| 6. | Engenuity (Pvt) Ltd | - | - | - | 3,847,913 | 3,847,913 |
| 7. | Dialog Axiata PLC | 105,689 | - | - | - | 105,689 |
| 8. | Mobitel (Pvt) Ltd | 43,014 | - | - | - | 43,014 |
| 9. | Bharti Airtel Lanka (Pvt) Ltd | 40,104 | 38,596 | - | - | 78,700 |
| 10. | Public Utility Commission of Sri Lanka | 553,629 | - | - | - | 553,629 |
| 11. | Quess Corp Lanka (Pvt) Ltd | 103,676 | - | 853 | - | 104,529 |
| 12. | Brani's Cafeteria | 12,521 | 19,334 | - | - | 31,855 |
| Total - MT (A) | | 7,792,985 | 57,930 | 853 | 4,211,086 | 12,062,854 |
| Tenants in Ceybank House - Kandy | | | | | | |
| 1. | Merchant Bank of Sri Lanka & Finance PLC | 24,035 | - | - | - | 24,035 |
| 2. | Colombo Stock Exchange | 59,307 | - | - | - | 59,307 |
| Total - Ceybank (B) | | 83,342 | - | - | - | 83,342 |
| Grand Total (A+B) | | 7,876,327 | 57,930 | 853 | 4,211,086 | 12,146,196 |

- (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 10 June 2024. Legal actions has been initiated to recover outstanding from Engenuity (Pvt) Ltd. (Case No. DMR 1375/23- Last calling date for answer 14.06.2024 and for replication calling date 18.10.2024) It is recommended to take suitable action to recover the outstanding balance without incurring loss to the Company.

1.6 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 60 per cent to 64 per cent from 2019 to 2020 and it came down to 43 per cent in 2021. However, it had increased to 50 per cent in 2022. Consequently with significant increase in Inventories, Receivables and Short Term Investments and decrease in Right of Use Assets and Property, Plant & Equipment during the year under review, it has further gone up to 54 per cent in 2023 .

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 | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-----------|-----------|-----------|-----------|-----------|
| Total Assets (Rs.000) | 2,350,447 | 2,169,300 | 2,112,041 | 2,050,868 | 1,927,314 |
| Current Assets (Rs.000) | 1,257,796 | 1,075,678 | 901,564 | 1,310,738 | 1,155,591 |
| Cash & Cash Equivalent (Rs.000) | 1,271 | 1,384 | 2,390 | 6,017 | 681 |
| Other Current Financial Assets/ Short Term Investment (Rs.000) | 1,228,592 | 1,043,078 | 883,942 | 1,281,361 | 1,123,089 |
| Current Assets as a % Total Assets | 54 | 50 | 43 | 64 | 60 |

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a profit of Rs. 309 million and the corresponding profit in the preceding year amounted to Rs.279 million. Therefore, an increase amounting to Rs.30 million of the financial result was observed. An increase of finance income by 48 per cent was the main reason 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 | 93,977,059 | 47.90 | - Interest income on REPO investments, fixed deposits and debenture had increased. |
| Direct Expenses | 23,284,,522 | 51.60 | - Electricity has increased by Rs. 18,796,621 due to revision of tariff. - Equipment, Electrical installation and Generator maintenance cost has increased by Rs. 2,035,216 due to Gen. repair, increase in service cost, replacement in LED panel lights etc... - Increase in municipal rates by Rs. 926,799 |
| Administration and Other Expenses | 12,474,351 | 95.13 | -Increase in Social Security Contribution Levy by Rs. 7,188,521 which was imposed with effect from 01 October 2022 -Increase in provision for doubtful debtors Rs. 3,063,173 -This year the Company has provided Rs. 563,173 and in year 2022 reversed the provision by Rs.2.5 Mn |
| Depreciation and Amortization | 8,755,382 | 28.54 | - Due to allocation of residual value of fixed assets between newly assessed useful life. |
| Consultancy Fees | 367,790 | 25.16 | - Include Rs. 230,000 for valuation obtained for rental purpose which was not in year 2022 |

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 | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|-------|-------|-------|-------|-------|
| Net Profit Ratio (percentage) | 70 | 74 | 64 | 71 | 66 |
| Current Assets Ratio (Number of time) | 18.18 | 10.93 | 18.29 | 23.95 | 34.54 |
| Net Current Assets to Total Assets (Number of Times) | 0.50 | 0.45 | 0.40 | 0.61 | 0.58 |

3. Operational Review

3.1 Operational Inefficiencies

| Audit Issue | Management Comments | Recommendation | | | | | | | | | | |
|--|---|---|-----------------------------------|-----|-----------------------|-----|--------------------------|-----|-------------------------------|-----|--|--|
| (i) Lease agreements need to be signed prior to commencement of the lease period. However, four number of lease agreements made during the year 2023 were signed after 03 months lapsed since the commencement of specified lease period. Details are given below. | Due to delay in confirmations, revision in rentals and their approvals in lessee's side execution of the lease agreements go beyond the expire date | It is recommended to sign the lease agreement prior to commencement of the lease period. | | | | | | | | | | |
| <table><thead><tr><th>Name of the Lessee</th><th>Lease Agreement No.</th></tr></thead><tbody><tr><td>01 Bharti Airtel Lanka (Pvt) Ltd.</td><td>436</td></tr><tr><td>02 MBSL & Finance PLC</td><td>386</td></tr><tr><td>03 BOC Super Grade-Kandy</td><td>393</td></tr><tr><td>04 Quess Corp Lanka (Pvt) Ltd</td><td>388</td></tr></tbody></table> | Name of the Lessee | Lease Agreement No. | 01 Bharti Airtel Lanka (Pvt) Ltd. | 436 | 02 MBSL & Finance PLC | 386 | 03 BOC Super Grade-Kandy | 393 | 04 Quess Corp Lanka (Pvt) Ltd | 388 | | |
| Name of the Lessee | Lease Agreement No. | | | | | | | | | | | |
| 01 Bharti Airtel Lanka (Pvt) Ltd. | 436 | | | | | | | | | | | |
| 02 MBSL & Finance PLC | 386 | | | | | | | | | | | |
| 03 BOC Super Grade-Kandy | 393 | | | | | | | | | | | |
| 04 Quess Corp Lanka (Pvt) Ltd | 388 | | | | | | | | | | | |
| (ii) 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. | 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. | | | | | | | | | | |
| <ul style="list-style-type: none">○ Sri Lanka Institute of Information Technology○ SLIIT Academy (Pvt) Ltd | | | | | | | | | | | | |