

Property Development Ltd - 2023

1. Financial Statements

1.1 Opinion

The audit of the Financial Statements of the Property Development Ltd (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 flow 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 considered would be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of chartered accountant in public practise.

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 their financial performance and their 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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference Laws, Rules Regulations etc.	to Non Compliance	Management Comments	Recommendation
Section 2 of Prevention of Frauds Ordinance, No. 07 of 1840 and Rule 14(30A) of Amendment to the Notaries Act No. 31 of 2022.	As per the said Instruction, it shall be the duty of every notary to submit for registration to the Registrar, every deed or instrument attested by him before the expiry of thirty days from the date of attestation thereof. However, the Company has not registered relevant Agreement in the land registry within the stipulated time.	<p>This matter is under discussion with the BOC (i.e. Tenant) and the following facts are stated with regard to the current position of the matter under reference.</p> <p>(a) This matter was communicated to the BOC (i.e. Tenant) vide PDL letter dated 09 August 2023 by Manager (HRA)/PDL</p> <p>(b) BOC vide their letter Ref.AGM/PROP/CM/pks dated 12 December 2023 had requested certain documents with regard to the matter under reference.</p> <p>(c) PDL sent the said documents to BOC vide PDL's letter dated 18 March 2024.</p> <p>(d) Accordingly, appropriate action will be initiated with the approval of the Board when a response is received from BOC.</p>	Need to register every deed or instrument in the land registry within stipulated time.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a profit of Rs.914 million and the corresponding profit in the preceding year amounted to Rs.793 million. Therefore, an increase to Rs.121 million or 15 percent of the financial result was observed. This was mainly due to the increase of finance income by 46 percent. While the revenue increased by 5.9 per cent during the year under review, the operating expenses was increased by 31 percent which is greater value than the revenue increase. However, the impact was neutralized due to the increase of finance income by a higher percentage.

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
Revenue	56,573,244	5.9	Revenue has increased by Rs.56.6 Mn when compared to the previous year due to the increased rent income. Rent income has increased due to new agreement which is effective from 01 July 2022. As per the new agreement rent per sq.ft. has increased to Rs.132/- from previous Rs.124/-. As well, the Social Security Contribution Levy (SSCL) imposed since October 2022 resulted to this increase.
Other Operating Income	4,639,686	47	Other operating income has shown an increase of Rs.4.6 Mn when compared with the previous year mainly due to increase of rent income from Mobitel and Dialog companies. Dialog rent has increased due to increase of exchange rate during the year 2023 (2022/23-Rs.203 and 2023/24-Rs.369) As well the Social Security Contribution Levy (SSCL) imposed since October 2022 resulted to this increase.
Direct Expenses	130,907,249	71.4	Direct expenses have increased by Rs.130.9 Mn when compared to the previous year mainly due to increased insurance policy premium on building, increased power cost, increased municipal rates and increased maintenance expenditure.
Employee Benefits Expenses	(6,190,996)	(3.3)	Employee benefits expense has shown a slight decrease by Rs.6.2 Mn when compared to the previous year mainly due to reduction of number of employees (retirement/attrition) during the year under review when compared with the previous year. (84 in 2023 against 92 in 2022)
Administration and other operating expenses	13,808,513	36.6	Administrative & other operating expenses have increased by Rs.13.8 Mn when compared with the previous year mainly due to Social Security Contribution Levy (SSCL) imposed since October 2022.

Finance Income	264,397,647	46	Finance Income has increased significantly by Rs.264.4 Mn when compared with the previous year due to a significant increase in interest rates on FD's and REPO's.
Income Tax Expenses	66,974,068	21.6	Income tax expense has increased by Rs.67 Mn when compared with the previous year mainly due to increase of the income during the year under review. As well, in year 2022 six months' profit was taxed at 24 per cent and it has increased to 30 per cent since 01 January 2023.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the company for the year under review as compared with the preceding year are given below.

Ratio	2023	2022
Net Profit Ratio (%)	39.8	51.7
Return on Total Assets (%)	16.6	16.6
Return on Equity (%)	13.15	13.8
Current Ratio (Number of Times)	21:1	14.5:1

It was observed that net profit ratio has been decreased when compared with the preceding year and current ratio (Number of times) of the company has shown higher value than the Benchmark continuously.

3. Operational Review

3.1 Delays in Projects or Capital Work

Although following capital works were budgeted and made provisions 2023 budgets, works have not been done during the year 2023.

	Description	Budgeted provision (Rs.000)	Remarks	Management Comments	Recommendation
(ii)	Supply and Installation of Air Handling Units	84,000	Full budget allocation for the Supply and Installation of Air Handling Units has not been utilized during the year 2023. The physical progress of the project has been zero percent till the end of the year 2023.	The Management decided to defer the project to 2026 as the existing Air Handling Units can be used for a further period of 2 to 3 years.	Need to budget at right time without any delay or earlier.
(iv)	Replacement of Electrical power sub distribution panels in selected floors	15,000	Full budget allocation for the project has not been utilized during the year 2023. The physical progress of the project has been zero percent till the end of the year 2023.	The Management decided to defer the project to 2026 as the existing power sub distribution panels can be used for a further period of 2 to 3 years.	Need to budget at right time without any delay or earlier.

3.2 Human Resources Management

Audit Issue	Management Comments	Recommendation
Although the Board decision no. 07/05/2023 stated that vacant position of the Deputy Maintenance Manager will be filled early with a suitable Engineer, the company has not taken action for recruitment.	This recruitment will be initiated during the latter part of this year. This said recruitment was differed as most of the major works are in abeyance since Covid-19 and also due to prevailing economic crisis since 2021.	Needs to be assessed the requirement of this key position to the company and recruit accordingly.

3.3 Installation of the CCTV Camera

Audit Issue	Management Comments	Recommendation
CCTV cameras were not installed in the stores located at the BOC head office building (B2).	One IP based CCTV camera has already been installed, covering entrance doors of three store rooms in Basement 2, and an action will be initiated to supply and install another IP based CCTV camera covering the entrance door of the Main Store room in liaison with the Bank of Ceylon.	Need to take all security measures for stores.

4. Accountability and Good Governance

4.1 Budgetary Control

Following major variances were observed between the budgeted maintenance expenditure and the actual maintenance expenditure of the Company during the year 2023.

	Description	Budgeted provision (Rs.)	Actual Expenses (Rs.)	Variance to the Budget (Rs.)	Management Comments	Recommendation
(i)	Maintenance of Air Conditioning & Mechanical Ventilation System	16,400,000	24,569,000	8,169,000	Costs incurred in respect of equipment such as valves, temperature sensors etc. supplied and installed under the Contract for the supply and installation of 2 way modulating intelligent pressure temperature independent flow control valves with actuators and Computer Based AHU Management System for AHU's of Central Air Conditioning System of BOC HQ Building which could not be capitalized were charged to P & L upon substantial completion of the said Contract. As a result of this accounting treatment, the actual expenses has considerably exceeded the budgeted provision.	Make effort to minimise the gap between budgeted and actual expenses.
(ii)	Fire Fighting	2,500,000	23,646,000	21,146,000	Costs incurred in respect of equipment such as Alarm sounders, Control Modules, Monitor Modules, Smoke Detectors, Heat Detectors, Fireman's phones etc. supplied and installed under the Contract for the supply and installation of Addressable Fire Detection and Alarm System and Two – way Fireman Telephone Communication system for the Bank of Ceylon Headquarters Building which could not be capitalized were charged to P& L upon substantial completion of the	

said Contract. As a result of this accounting treatment, the actual expenses have considerably exceeded the budgeted provision.

(iii)	Security Alarm & CCTV	-	293,000	293,000	A CCTV Camera had to be supplied and installed at the Fire Command Centre in the Ground Floor, but provisions have not been made in the Maintenance Budget for installation of CCTV cameras.
(iv)	Expenditure on Materials for BOC Jobs	10,284,000	15,219,000	4,935,000	This cost includes the material used for jobs carried out on behalf of the Bank of Ceylon. Actual amount increase than the budgeted amount due to higher level of works handled for on behalf of BOC during the year under review than the budgeted. Also, during the year actual prices of the materials have gone up than the budgeted due to import restrictions and economic crisis of the country.