

## **Ocean View Development (pvt) Ltd. -2024**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the Ocean View Development (pvt) Ltd for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, and of its profit and loss 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 unqualified 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 (Auditor's Responsibilities for the Audit of the Financial Statements)**

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 Receivables and Payables

### 1.5.1 Cash Receivables

Audit Observation	Management Comment	Recommendation
(a) The company was supposed to receive a monthly rental income of Rs.10,428,477 from its rented properties, but due to payment defaults, a total of Rs.64,564,807 was due at the end of the reviewed year. Out of this amount, Rs.23,703,165, Rs.2,197,905, and Rs.1,602,583 were due from three private institutions respectively.	It has been agreed to pay the amount due in installments and has requested concessions for rent payments citing economic difficulties due to the Covid pandemic, and has presented them to the Board of Directors and provided possible concessions.	Steps should be taken to promptly recover outstanding rent as per the agreement.
(b) At the end of the reviewed year, out of the outstanding Rs.10,102,804 due from those who had vacated the rented properties, a balance of Rs.4,324,638 was outstanding for a period between 1 to 5 years, and a balance of Rs.5,653,461 had remained unrecovered for a period of 5 to 10 years. However, during the audit, instances were observed where the company had not obtained sufficient funds as deposits to compensate for rent defaults by the tenants.	The outstanding balances have been directed to be deducted from the refundable deposit amounts and to proceed with legal action.	Action should be taken to recover the amount due promptly.
(c) The tenant residing in house 13-A of the Ocean View building had filed a case against the company in the year 2019 and since that date, the company had suffered a loss of nearly Rs.05 million due to non-payment of rent and failure to enter into a rental agreement. Due to the shortcomings in the agreement, the homeowner had not vacated the house and was in a position to take action	There is no possibility of issuing an invoice to the resident in the event that there is a court case regarding this housing unit. Depending on the decision of the current legal proceedings, the court case may be filed again for the period during which the invoice was not issued, or the rent may be collected upon the	Rental agreements should be entered into formally and necessary steps should be taken to recover the relevant rent.

against the company. Also, the rent agreement of both parties. receivable for this housing unit for the years 2016, 2017 and 2018 was Rs.2,534,034 and the refundable security deposit amount that had been retained was Rs.120,000. Furthermore, the company had not issued invoices for the rent due for this housing unit after 2018.

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| (d) | A loan balance of Rs. 408,774 recoverable from two employees dismissed in the 2015/2016 financial year had not been recovered to date. Furthermore, there were instances during the reviewed year where loan installments for housing and distress loans granted by the company to its employees were not properly recovered.                              | This matter was presented to the Audit and Management Committee meeting. As the statutory limitation period had lapsed and the cost of recovery could be high, it has been proposed to write off (the amount). Steps are currently being taken to submit a Board of Directors paper.   | Action should be taken to promptly recover the loans given to the employees.  |
| (e) | The laptop computer worth Rs.194,000 issued to the former Chairman had not been returned to the Company since 2019, when he left office, until the date of the audit. Furthermore, according to the 2024 Board of Survey Report, an audio recorder valued at Rs. 11,950 and a fax machine valued at Rs. 25,000 were physically not present in the company. | The value of the audio recording machine, which was Rs. 11,500, will be sought to be recovered in installments. Although the former chairman was informed about the machine, his response was that since the chairman appointed during the short-lived political change in 2018 had opened the chairman's office and entered the office, he cannot be held responsible for the items in it. The only thing that can be done in this regard at present is to consider it as a loss and remove it from the accounts. | A formal investigation into the relevant matters should be conducted and immediate action should be taken to recover the losses from the responsible officials. |

## 1.5.2 Payables

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The retention money amount of Rs.2,659,694 included in other payables had not been settled even though a period of 4 to 10 years had passed, and the amount of Rs.2,191,375 payable to a private	They should apply for the release of the payable retention money, and the Technical Division should recommend the release of the retention money if the defects liability period of the project has	Immediate action should be taken to settle outstanding payable balances.

institution for the construction of the Mattegoda housing project had also been included in the said balance without being settled since 2014, even though the construction had been completed.

ended and no defects have been reported.

The money retained from other service providers will be presented to the Board of Directors, and action will be taken to transfer it to other income based on the decisions made therein.

- (b) A dividend amount of Rs. 910,840 payable to the Urban Development Authority for the year 2013 had not been settled even though 10 years had passed. The then Board of Directors had instructed to retain this money against the payment due by the Urban Development Authority (UDA) to Ocean View for the 01 D housing unit and the amount due by the Urban Development Authority to Ocean View has increased to Rs. 5,013,830 by the year 2024. Immediate action should be taken to settle outstanding payable balances.
- (d) The refundable deposit amount of Rs.5,335,455 collected from the tenants who have already vacated the Ocean View building has not been settled to date, even though more than 10 years have passed. This was discussed at the Board of Directors and will be reviewed again in 2025 and considered for crediting to income. Arrangements should be made to settle refundable deposits.

### 1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Management Comment	Recommendation
(a) Section 131 of the Companies Act, No. 07 of 2007	Although every company is required to submit an annual returns containing the matters specified in the Fifth Schedule to the Companies Act to the Registrar of Companies in the prescribed format once a year, the company had not submitted the annual return to the Registrar of Companies.	Annual returns have been submitted up to the year 2021 and annual returns can be submitted after complete of the registration of directors.	According to the Companies Act, annual returns should be submitted to the Registrar of Companies.

- (b) Paragraph 2.7 of The transportation allowance of Rs. 7,500 paid to Board members or observers for attending Board meetings had been increased to Rs. 25,000 based on the decisions of the Board of Directors. The amount payable as per Section 2.7 of Circular 03/2015 is not mentioned. Accordingly, the above amount has been approved as the transportation allowance after considering the prevailing fuel cost and other charges at the Board of Directors meeting. Arrangements should be made to pay transportation allowances in accordance with the provisions of the circular.

## **2. Financial Review**

### **2.1 Financial Results**

The operating result of the year under review amounted to a profit of Rs.196.025 million and the corresponding profit in the preceding year amounted to Rs.205.199 million. Therefore a deterioration amounting to Rs.9.174 million of the financial result was observed. The reasons for the deterioration was mainly due to a decrease in land and house sales revenue by Rs.22.615 million and an increase in repair and maintenance expenses by Rs.3.947 million.

### **2.2 Trend Analysis of major Income and Expenditure items**

Compared to the previous year, the administrative expenses for the year under review had increased by Rs.21.14 million, and financial income had decreased by Rs.4.69 million. Furthermore, the rental income from houses had increased by Rs.29.66 million compared to the previous year.

### **2.3 Ratio Analysis**

The current ratio and quick asset ratio for the year under review were 2.54:1 and 1.13:1 respectively, while in the previous year it was 2.47:1 and 1.03:1 respectively.

### 3. Operational Review

#### 3.1 Management Inefficiencies

	<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	The company had sold 21 shops in the Park Road building to a private company for Rs.70.02 million in 2019. Although Rs.20.02 million was due from the buyer as of the last day of the year under review, the buyer had filed a lawsuit against the company in the Colombo District Court, seeking Rs.130 million in compensation due to the buyer's inability to use the shops because of a case filed against those shop premises. Furthermore, it was observed in audit that out of these 21 shops, the construction of which was completed in 2005, 19 were closed by the end of the year under review, indicating the ineffectiveness of the company in achieving its primary objectives.	The buyers of these shops mentioned here filed lawsuits in 2019 and 2020 requesting that these shops be used as garages, and the police have suspended construction activities.	Efforts should be made to make maximum use of resources.
(b)	The company had planned to construct a condominium housing project consisting of 70 houses on a 100 perch land in Delkanda, which was purchased in 2018 but, these plans were not implemented up to the end of the year under review and subsequently the Board of Directors decided in 2023 to sell the land proposed for this project.	Currently, a proposal has been made to build a housing scheme on this land.	Plans should be implemented efficiently and effectively.
(c)	The Nuwara Eliya Municipal Council and Ocean View Development (Private) Limited had entered into a bilateral agreement in 2016 to prepare a mixed development project on a land measuring 01 acre and 44.68 perches, which the Company and the Nuwara Eliya Municipal Council do not own. For this, the	This property was transferred to the Nuwara Eliya Municipal Council through a Deed of Declaration and was identified as a property held in trust by the government. Accordingly, the necessary steps were taken for the Nuwara Eliya Municipal Council to acquire this	Projects should be implemented using management decisions accurately and effectively.

company had incurred a total expenditure of Rs.10,954,477 for soil testing, preliminary planning, publicity, surveying and other expenses from 2016 to June 2019. Also, although Rs. 10 million was allocated for this project in the year 2022, it was not possible to clear the land and commence the project activities until the end of the year under review.

property. Future work on this project must be executed based on the decisions of the current management.

### 3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Although it was proposed to construct 36 houses under the Kahathuduwa Phase II project, the construction of only 11 houses had commenced in 2021 and the construction had not been completed even by 31 December 2024. Also, out of the 11 houses whose construction was started in 2016 under Phase I of the Kahathuduwa Housing Project, only 07 houses had been sold and although the work on House Nos. 25 and 26 had been completed, it had not been possible to sell them. Despite nine years having passed since the project began, the work on House Nos. 08 and 09 could not be completed even by the end of the year under review.</p>	<p>Although work on 11 out of 36 houses under Phase II of the Kahathuduwa Housing Scheme had commenced, due to the adverse economic situation in 2021 and 2022 and the subsequent high prices of construction materials, it was proposed to stop the work and sell the houses as they were.</p>	<p>Action should be taken to implement the housing schemes efficiently and effectively and realize their benefits.</p>
<p>(b) In accordance with the Memorandum of Understanding (MoU) entered into by the Company with the National Housing Development Authority on 09 June 2016, it was proposed to construct a 100-unit apartment complex in the Maligawatta area, and an expenditure of Rs.934,683 had been incurred for this purpose by 31 December 2021. Although the transfer of ownership of this land to the Authority was directed to the Provincial Land Commissioner by letter No. කා/අප්‍රXI/02/16-2020 and dated 10 July 2020 from the Secretary of the Ministry of Agriculture, Land, Irrigation, Fisheries,</p>	<p>According to the Memorandum of Understanding signed between the National Housing Development Authority and our institution, it was proposed to carry out housing projects on the land located in Maligawatta, which is occupied by the National Housing Development Authority, and accordingly, the amount specified has been spent for preparing project reports, preparing blueprints and obtaining preliminary approvals, and since this property was not properly transferred to the National Housing</p>	<p>The ownership of the relevant land should be transferred to the authority immediately and the construction of the housing complex should be expedited.</p>

- Animal Production and Health and Agrarian Development, these transfers have not been completed to date and the construction of the housing complex has not commenced.
- Development Authority, the necessary steps were taken for that and at present, the property has been transferred to the National Housing Development Authority. The future work of this project will be carried out based on the decisions of the current management.
- (c) Although a period of time ranging from 2 months to 4 years and 8 months had passed since the contracts for 4 housing units in the Ocean View building were cancelled, the tenants had residing in the houses without entering into new contracts.
- Since one of the directors of one of the companies is out of the country, it has not been possible to sign the agreements. Agreements for the remaining 03 houses have not yet been agreed upon.
- Efforts should be made to enter into new agreements and increase the returns on investment assets.
- (d) There were instances where agreements were entered into for a very low rental amount when compared with the valuation prepared for December 2023, which was based on the valuation report the company obtained for the Ocean View building in 2015.
- Action has been taken in accordance with the decision of the Board of Directors after considering the requests and other matters.
- The contract should be based on the correct assessed value.
- (e) Although the Procurement Plan should be prepared and necessary approval obtained in the year prior to the year of implementation, the Company prepared the Procurement Plan for the year 2024 only on 15 August 2024. Furthermore, in accordance with Clause 4.2.1 (c) of the Government Procurement Guidelines, a detailed plan for the procurement activities of the next year should have been prepared, but this was not done.
- The institution's Procurement Plan for the year 2024 was prepared on 20 December 2023, and was submitted to and approved by the Board of Directors meeting held in February 2024. A revised Procurement Plan was prepared on 16 August 2024, and was submitted to the Ministry of Urban Development, Construction and Housing.
- The plan must be prepared within the stipulated time as per the provisions.
- (f) Although the renovation work of the apartment units of the Ocean View building was planned to be completed by 31 December 2024 at a cost of Rs.24.5 million, the work had not been completed by the end of the year under review. Although the structural renovation work of the Ocean View building was planned to be completed by 02 April 2024 at a
- 95 percent progress has been made in the internal renovation works. The Board of Directors has given approval and instructions to carry out certain renovation works through CECB and the tendering process for the necessary renovation works is underway.
- Immediate action should be taken to achieve the planned goals on time.

cost of Rs.33 million, only 45 percent of the physical progress had been achieved by the end of the year under review.

### 3.3 Under Utilization of Funds

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The balance of Rs. 2,717,822 in the current account of a private bank had been inactive for more than 03 years due to some problematic situation in the account, but no steps had been taken to resolve those problems.	Every effort is being made to resolve the existing issue regarding Form 20 at the Registrar of Companies' Office at the institutional level. This will also require the intervention of shareholders and work is underway to do so.	Immediate action should be taken to resolve issues and invest bank account balances effectively.