

Urban Investment and Development Company - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Urban Investment and Development Company for the year ended 31 December 2019 comprising the statement of financial positions at 31 December 2019 and the statement of comprehensive income, 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 reported 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 2019, 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 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.

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
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	Rs.	Rs.	Rs.		
Debtors	247,672,922	254,898,840	7,255,918	According to the age analysis, this was due to the reason of system error. The system analysts of science land Company, already started to correct this balance in the report of age analysis and they will correct and complete before ending this year.	System errors should be rectified.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue

Actions had not been taken to recover the debtor balances remained as unrecovered as at end of the year under review, which were receivable from 03 Public Institutions amounting to Rs 6,053,951.

Management Comment

Action is being taken to allocate the provision of bad debtor for the amount of Rs.407,703 and the balance due from Western Regent Mega Polis Project, has been presented to the Board of Directors of UNIDEP at its meeting held on August 27th 2020 to solve the matter and, as per the new agreement of 2018 Ministry of Education rent due amount of Rs.3,767,903 reduce to Rs.2,394,734 and we recovered Rs.2,394,734 on 01/04/2019 and we cancelled previous invoice amount of Rs.3,767,903. Action is being to reverse of Rs.3,767,903.

Recommendation

Prompt action should be taken to recover debtor balances as early as possible.

1.6.2 Payables

Audit Issue

- (a) The retention money amounting to Rs.1,359,937 had not been settled for over one year and action had not been taken to write off the non-liable balances to the income after being analyse the balances.

Management Comment

Action had not been taken to clear the payable balance of retention as at 31st December 2019. But this amount was agreed to clear and reconcile by the financial unit of UNIDEP before the end of the year 2020.

Recommendation

The action should be taken to settle the long outstanding balances and the non-liable balances should be written off to the income.

- (b) Action had not been taken by the company to settle the payable electricity bills amounting to Rs.31,674,325 for over more than 5years.

A detail discussion is taking place with CEB and PUCSL to resolve this matter.

The payable should be settled according to the agreements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 7.4.5 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Action had not been taken to conduct, a Board of Survey by appointing a Committee of Board of Survey.	Due to the prevailing Covid-19 situation it could not be able to obtain the Board of Survey Report.	Annual Board of Survey should be conducted according to the circular instructions.
(b) Section 5.2.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.	Although it is required to prepare a capital budget and obtain the approvals of the Board of Directors and the Department of Public Enterprises thereon in accordance with the Public Enterprise Department, Circular, dated 2 , June 2003, the company has not prepared a capital budget. A Toyota Land Cruiser Jeep purchased on 27, June 2014 for Rs. 17,965,769 had been handed over to the UDA from the date of purchase.	Comment had not been given	The fund of the company should not be utilized for other purposes without having proper approvals, violating regulations of the government.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.320.1 million and the corresponding profit in the preceding year amounted to Rs. 256.98 million. Therefore an improvement amounting to Rs.63. 15million of the financial result was observed. Increase of total income by Rs.34.2 million and finance income by Rs.0.743 million and decrease of finance expenses by Rs.29.1million had been mainly attributed for this improvement in the financial results.

2.2 Ratio Analysis

- (a) Compared to the preceding year, the profit ratio of the company was increase from 39.6 per cent to 46.9 per cent during the year under review. Improvement of the total income by 5.27 per cent and decrease of the interest expense by 12.21 per cent were the main reasons for that improvement.
- (b) The current ratio of the company for the preceding year was 7.53:1 and this was increased to 8.89:1 in the year under review.

3. Operational Review

3.1 Procurement Management

Audit Issue

According to Section 7.3 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, and the Section 4.2 of the Government Procurement Guidelines the Company had not prepared Procurement Plan for the year 2019.

Management Comment

Comment had not been given.

Recommendation

A Procurement Plan should be prepared following the Circular instructions.

3.2 Human Resources Management

Following observations are made.

Audit Issue

(a) According to paragraph 9.2 (b) and (d) and section 9.3.1 (i) of Public Enterprises Department Circular No.PED/12 dated 02 June 2003, the cadre of the Company should be approved by the Department of Management Service. As well as Recruitment and Promotion Scheme should be approved by the Board of Directors of the Company and the relevant Ministry, with the approval of the Department of Public Enterprises. However, the Company had not followed the above circular instructions.

Management Comment

Comments had not been given

Recommendation

Action should be taken to obtain the approval for the recruitment and promotion procedure and approval for the carder of the Company.

(b) In 2017, the company recruited 79 Assistant Planning Officers on the assignment basis without following due procedures out of those officers, permanent appointments had been given to 63 officers in 2019 and they had been placed at UDA assignments.

Comments had not been given

After being obtained the approval for the required cadre, only the approved cadre should be recruited. The employees should not be recruited, on behalf of the UDA.

(c) Eight employees recruited to the Urban Development Authority (UDA) and have been placed in the Company on secondment basis without having the approval, of the Cabinet of Ministers contrary to paragraph 9.4 of Public Enterprises Circular No. PED/12 dated 2 June 2003. The company has paid approximately Rs. 8.7 million to the UDA as salaries for the above employees during the year under review.

Comments had not been given

Action should be taken to obtain the approval for the required cadre of the company.

4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
(a) In terms of Section 5.1.2 of the Public Enterprises Circular No. PED / 12 of 02 June 2003, resources available to the company had not been included in the corporate plan prepared for 2018-2022.	Comments had not been given	Corporate plan should be prepared according to the Circular instructions.
(b) The action had not been taken by the company to forward the updated Corporate Plan approved by the Director Board together with the updated Annual Budget to the line Ministry and the Department of Public Enterprises and General Treasury.	Comments had not been given	The circular instructions should be followed.
(c) The company had not been prepared the Key Performance Indicators (KPIs) relating to the activities of the Company. As a result, the performance of the company for the year under review could not be evaluated in audit.	Comments had not been given	The KPIs should be prepared so as to evaluate the performance of the Company.

4.2 Internal Audit

Audit Issue	Management Comment	Recommendation
No Internal Audit Division had been established in the company and an Internal Audit functions had been carried out by the UDA. However, the audit coverage was not is not in a satisfactory level.	An Internal Audit had been carried out by the UDA.	Internal audit functions should be done effective manner as a part of the internal control system.

4.3 Audit Committee

Audit Issue	Management Comment	Recommendation
The Audit Committees had not been held in the year under review.	Audit Committee had not been conducted.	Audit Committees should be conducted.

4.4 Budgetary Control

Audit Issue

Management Comment

Recommendation

According to the section 5.2.1 of the Public Enterprises Circular No.12 dated 02 June 2003, budgeted Income and Expenditure Statement for the year, budgeted Balance Sheet as at the end of the year, Cash Flow Statement for the year and the budgeted Capital Expenditure together with an Action Plan, should be prepared by the Company. However, the company had prepared Budgeted Income and Expenditure Statement only for the year.

The budgeted Income and Expenditure Statement had been prepared for the year under review.

Budget should be prepared in accordance with the provisions included in the PED/12 circular.