

Urban Investment & Development Company (Pvt) Ltd - 2020

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Urban Investment & Development Company (Pvt) Ltd Company for the year ended 31 December 2020 comprising the statement of financial position 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 report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the matters described in paragraph 1.5 of this report.

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 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 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 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	According to the Sri Lanka Accounting Standard 16 (LKAS 16), the fully depreciated assets, but still in use should be disclosed in the financial statements and adjustments for the estimated useful life of the assets should be made in the financial statements in terms of the LKAS 08. However, for the assets amounting to Rs.22.1 million, which were fully depreciated but still in use had not been act accordingly.	We would like to inform you that, in the future these assets will be re valued and the necessary actions will be taken to adjust the accounts.	The company should be complied with the provisions included in the Sri Lanka Accounting Standards.
(b)	An ordinary share capital had been issued at a value of Rs.345 million which was the equivalent value of the land acquired by the Urban	As per the provisions included in the Sri Lanka financial reporting standard No 16 (SLFRS 16) under the cost model, action will be taken	The company should be complied with the provisions included in the Sri

<p>Development Authority in 2007 on a 50 year lease basis and, Rs.6.9 million and Rs.247.25 million had been accounted under current and non current assets respectively instead of being accounting the right of use land on lease in accordance with the paragraphs no. 24 and 26 of the Sri Lanka Financial Reporting Standard No.16</p>	<p>to correct the company's accounts in the year 2021 including the net value of Rs. 254.15 million as right of use land on lease, by deducting the cumulative amortization value amounting to Rs.90.85 million up to now from the cost of the ownership of the property valued at Rs.345 million.</p>	<p>Lanka Accounting Standards.</p>
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<p>(c) When preparing the cash flow statement by the company, the dividend receives amounting to Rs.210,461 had not been adjusted in the cash flow statement contrary to the provisions included in the Sri Lanka Accounting Standard No 07 and, the loan interest reimbursed by the company to the Urban Development Authority had not been adjusted to the cash flow statement and instead of that net value of Rs.438,125,614 had been shown under finance activities and due to that net cash out flow had been understated by Rs.149,874,386.</p>	<p>Action will be taken to show that money separately as a cash flow from investment activities. The net cash flows amounting to Rs.438,125,614 generated by the summary of the transactions between the company and the authority through the current account had been analysed and corrected in the cash flow statement for the year 2020 and the revised cash flow statement for the year 2020 has been submitted.</p>	<p>The company should be complied with the provisions included in the Sri Lanka Accounting Standards.</p>
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1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The Urban Development Authority had not been entered into an agreement with the company to recover the loan obtained from a state bank and for the interest paid on the loan for the construction of the Sethsiripaya Phase II office building. However, in the company's comprehensive income statement the interest on the loan, which had been accounted for the year 2020, was Rs.142,075,299 and, within this paid loan interest value, a paid interest expense for previous year amounting to Rs.7,326,066 had been accounted and the payable interest for this year amounting to Rs.3,961,227 had not been accounted. As a result loan interest expense for the year</p>	<p>Action will be taken to adjust the relevant adjustments in the 2021 Accounts, by considering the audit query and the relevant accounting standard.</p>	<p>The interest expense for the year should be adjusted to the financial statements on an accrual basis.</p>

had been overstated by Rs.3,364,839 and current liabilities had been understated by Rs. 3,961,227

- (b) Although the balances of Rs.31,674,325 payable from July 2012 to May 2015 due to incorrect charging of Ceylon Electricity Board had been removed from the accounts of the Ceylon Electricity Board in the year 2017 after an agreement was reached with the company due to non adjustment of this payable balance to the company's Financial Statements from the year 2017 to the year under review, the company's current liabilities and retained profits had been increased and decreased by this value respectively.
- According to the consent reached after discussion with the Ceylon Electricity Board the company had been taken steps to clear the arrears through the electricity Bills. As UNIDEP is not responsible for this. An action has been taken to remove this value from the books by Journal No.J02323
- The correct accounting method/ adjustments should be followed.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per corresponding Records	Difference	Management Comment	Recommendation
	(Rs)	(Rs)	(Rs)		
Debtors	255,364,695	263,447,550	8,082,855	This difference is shown when comparing the ledger with the debtor's age analysis report in the accounting system and, it is already updating in the accounting system properly.	The company should identify the differences between these balances and the necessary steps should be taken to compare those balances.

1.5.5 Documentary Evidence not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
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	(Rs)	(Rs)		
(a) Non current Liabilities	1,901,559,252	Detailed Schedules	A detailed schedule for the balance of Rs.1,903,019,550 payable by the Urban Investment and Development Company (pvt) Limited to the Urban Development Authority at the end of the year under review was submitted to Government Audit Division on a November 2021.	A copy of the ledger should not be submitted as a schedule for audit purpose and it should be a detailed schedule. The company should make arrangements to submit the relevant schedules to the Audit Division.
(b) Provisions for Doubtful Debtors	4,169,731	Calculation and confirmation schedules related to provision for doubtful debtors.	This provision for doubtful debtors was calculated and provided to us in the year 2018 by Ernst and young the company that conducted the audit. Details related to those calculations will be obtained from that institution and will be provided to you as soon as possible in the future.	The company should be provided the schedules and information required for the audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
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(a) When presenting the age analysis for debtors amounting to Rs.263,447,550 it was observed that it is unable to identify the long term outstanding debt balances due to being specified the age analysis only as less than 1 month and only 1 to 2 months and more than 3 months respectively.	We will look into whether it is necessary to change that time analysis in the future.	Action should be taken to present age analysis of the debtors in such a way as to identify risky debt balances.
(b) Out of the office premises rented out by the company, the outstanding electricity bill balance exceeding one year and due from 32 government institutions and 3	I would like to inform you that Rs. 9,450,760 had been already settled out of the balance shown as	Action should be taken to recover the receivable balances expeditiously.

private institutions at the end of the year under review was Rs.15,058,727 as electricity bill and the relevant steps have been taken to recover the balance amount.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Actions had not been taken by the company to settle the outstanding balance of Rs. 1,960,987 in the company's financial statements which were coming since more than 5 years.	I would like to inform that the necessary action will be taken with the approval of the board of management of the company to eliminate the balances from the books and make the necessary adjustments in the final accounts for the year 2021.	The actions should be taken by the company to settle these long outstanding balances. Also action should be taken to write off the non-liable balances to the income subject to the required approvals.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
Without obtaining the approval of the Ministry of Finance, the company had purchased a Toyota Land Curser Jeep on 27 June 2014 for a cost of Rs.17,965,749 and it had been rented out to the Urban Development Authority from August 2019 with the approval of the Board of Directors, at a monthly rent of Rs.100,000.	This jeep was purchased on the official requirement of the then chairman and then officially offered to the new chairman elected in the year 2016. However, as he did not use the jeep, it was given to the then chairman of the Urban Development Authority, the parent company of the company, for use on reasonable rent basis with the approval of the Board of Directors dated 30 January 2019.	In accordance with the circular provisions, the funds of the company should be utilized to achieve the objectives of the company.

1.8 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	The annual Board of Survey for the year under review had not been conducted and the relevant survey	From 2021 it will be further improved and it was decided to prepare an Annual Survey Report through a Board	The company should be conducted the Annual Board of Survey according to the circular provisions

reports had not been submitted to the audit. of Survey appointed by the company. issued by the Department of Public Enterprises.

- (b) Section 8.2.3 of the Public Enterprises Circular No PED/12 dated 02 June 2003 The approval of the Minister of Finance had not been obtained for the value of Rs.5,471,978 invested in a quoted company. Another public quoted company sought to acquire the managing ownership of Onali Holding's so, Urban Investment and Development (pvt) Ltd purchased the shares of Onali Holdings to minimize the risk. The company should be complied with the circular provisions issued by the Department of Public Enterprises.

1.9 Cash Management

Audit Issue	Management Comment	Recommendation
(a) According to the bank reconciliation statement prepared for the month ended 31 December 2020, the company had been failed to comply with the 369(d) of the Finance Regulation even up to the date of the audit in respect of 3 cheques issued but not presented to the bank which were amounting to Rs.70,000 and exceeding 6 months to 12 months period as at 31 December 2020.	I would like to inform you that from the year 2021, the cheques which have been issued for more than 06 months have been identified in the preparation of Bank Reconciliation statements and have been adjusted to the accounts as required.	The company must be complied with the terms set forth in the Finance Regulations.
(b) According to the bank reconciliation statement in January and June, it was observed that 01 cheque amounting to Rs.781,000 and 02 cheques amounting to Rs.704,759 which were noted as issued but not presented for the payment, had been actually issued in month of February and July respectively.	As the cash book and monthly vouchers are being balanced on a monthly basis, action will be taken to avoid such situations in the future.	The Company should be followed the correct accounting treatments.

1.10 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) The company had been paid income tax of Rs.16,060,601 as at 31 December of the year under review on a self-assessment basis. However, according to the financial statements of the year 2020 the actual tax liability was Rs.2,362,762 and it was observed that the company had been paid an overpayment of tax amounting to Rs.13 million	The Inland Revenue Department had been verbally instructed that 10 per cent of the capital allowance for building should be used in the preparation of final accounts for the year 2020. (As per Gazette No 234/2018) There has been an over calculation of Income Tax due to the fact that the company used a lower percentage of capital allowance for buildings in the first 2 quarters.	The company should be act in accordance with the provisions of the Income Tax Act.
(b) The amount of unaccounted Economic service Tax payable for the year of assessment 2013/14 and 2014/15 was Rs.2, 668,338 and although it has been requested from the Inland Revenue Department to offset from the receivable value added tax, in the absence of a decision to that effect, it had been stated in the financial statement after debiting that value to the receivable Economic Service Tax Account and adjusting to the Payable Income Tax Account.	Since the company is exempt from income tax for the year 2013/14 and 2014/15 as agreed by the Board of Investment of Sri Lanka, and on that basis, the economic service tax is represented on the balance sheet as a current asset to be deducted from the income tax payable.	The company should be act in accordance with the provisions of the Income Tax Act.
(c) The value added tax of Rs.85,409,990 paid to the Inland Revenue Department had been accounted for under current assets in financial statements since many years and action had not been taken to settle that debit balance.	Negotiations regarding this refund will be expedited and necessary action will be taken to recover the refund.	Action should be taken to analyse and settle the long term balances.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.362.9 million and the corresponding profit in the preceding year amounted to Rs. 320.1 million. Therefore, an improvement amounting to Rs. 42.8 million of the financial result was observed. The reasons for the improvement are decrease of finance expenses by Rs. 66.8 million and other operating expenses by Rs.12.5 million had been mainly attributed.

2.2 Trend Analysis of major Income and Expenditure items

- (a) Compared to the preceding year, the company's revenue had been decreased by Rs.672.5 million to Rs.654.8 million by 2.6 per cent and this was mainly due to the decrease of rent income by 3.5 per cent.
- (b) Institutional and administrative expenses had been increased by 13.3 per cent compared to the preceding year. Increase of machinery repairs and maintenance expenses by 81 per cent and salary expenses by 79.4 per cent had been mainly attributed for the above increasement of administrative expenses.
- (c) Other operating expenses for the year under review had been decreased by Rs.14.75 million to Rs.2.2 million by 84.5 per cent. This was mainly due to the fact that the Nation Building Tax was reduced by 100 per cent during the year under review.
- (d) The company's financial expenses had been decreased by 31 per cent compared to the preceding year. This was due to the fact that the interest expense had been decreased by Rs. 208.9 million to Rs.142 million by 32 per cent compared to the previous year.

2.3 Ratio Analysis

- (a) Compared to the preceding year Net Profit Ratio the profit ratio of the company had been increased from 47.33 per cent to 52.36 per cent. This was mainly due to the decrease in the finance expenses.
- (b) The current ratio of the company for the preceding year was 8.88:1 and this was increased to 9.28:1 in the year under review.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Urban Development Authority had entered into an agreement with the company to perform the functions and provide consultancy services on 44 proposed development plans, even though the	Comment had not been given.	The company should be entered into agreements which only for functions that the company can perform and action should be taken to get the fee by performing the relevant tasks.

company had not been provided the relevant consultancy and guidance services to the Authority on behalf of that function the company had been obtained Rs.17, 082,061 from the Authority as Management Service Income.

3.2 Procurement Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>The company had not been prepared a procurement plan from the year 2015 to the year under review in terms of section 7.3 of Public Enterprises Department Circular No PED/12 dated 02 June 2003 and section 4.2 of the Government Procurement Guideline, and during the period for 2020 and for the last four years</p> <p>Rs.20, 313,474 had been spent for the purchase of non-current assets and Rs.28, 786,980 had been spent on 08 service agreements for the year 2020/2021.</p>	<p>The Urban Development Authority, the parent company, will carry out the major and minor procurement activities depending on the nature and requirement of the company's purchases.</p>	<p>The company should be prepared the procurement plan in accordance with Government Procurement Guidelines and other circular provisions.</p>

3.3 Human Resource Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>(a) According to paragraph 9.2 (b) and (d) and section 9.3.1 (1) of Department of Public Enterprises Circular No.PED/12 dated 02 June 2003, an approved cadre had not been prepared and submitted for approval to the Department of Public Enterprises in the Treasury and the company had not been prepared a recruitment and promotion scheme and action had not been obtained to get the approval.</p>	<p>A cadre will be prepared and action will be taken to obtain the relevant approvals in the future. No recruitment and promotion scheme has been formulated up to date. As the activities of the Urban Investment and Development (pvt) Limited are being carried out by a limited staff of 11 persons, I would like to inform you that appropriate action will be taken in the future if the scope of the institution expands.</p>	<p>Action should be taken to prepare and approve a recruitment and promotion scheme and to approve the existing staff of the company.</p>

- (b) Nine officers of the Urban Development Authority had been released to the company without having the approval of the cabinet of Ministers contrary to paragraph 9.4 of the Department of Public Enterprises Circular No. PED/12 dated 02 June 2003. During the year under review Rs.9,137,445 was paid to these officers and, in addition to the board allowance, Rs.1,150,000 had been paid as allowances to three officers on the Board of Directors for performing the duties of the company.
- Provide advice and guidance on all matters related to administration and finance of the company by two Directors of Executive grade. They are also paid an allowance for it. No duty list had been prepared for the two directors so far. Also, since the 09 employees attached to the company have been released to the company full time by the Urban Development Authority, the company has been taken action to reimburse the salaries paid by the Urban Development Authority to the relevant officers for their service in the company and included it in to the company's salaries cost.
- Action must be taken to obtain the approval of the cadre required for the company.

4. Accountability and Good Governance

4.1 Submission of Annual Reports to the Parliament

Audit Issue	Management Comment	Recommendation
<p>According to the paragraph 6.5.1 of Department of Public Enterprises Circular No PED/12 dated 02 June 2003, the company is required to submit a Draft Annual Report to the Auditor General within 60 days of the end of the financial year and the Final Annual Report should be tabled in parliament. But action had not been taken to submit annual report or draft annual report from the year 2006 when the company was started to the year under review.</p>	<p>I would like to inform you that, in the future the annual reports of the company will also be tabled separately in parliament.</p>	<p>Action should be taken to prepare the annual reports and table in the parliament.</p>

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
(a) In terms of paragraph 5.1.2 of the Department of Public Enterprises circular No PED/12 dated 02 June 2003, information on resources available to the company and an evaluation of the operational results for the past 3 years had not been included in the corporate plan prepared for the year 2018-2022	This is the first corporate plan we have submitted and we would like to inform you that future improvements will be made in the coming years.	The company should be formulated the corporate plan in line with the future direction of the company in accordance with the circular provisions issued by the Department of Public Enterprises.
(b) The actions had not been taken by the company to forward the updated Annual budget with the updated corporate plan approved by the Board of Directors to the line Ministry, the Department of Public Enterprises and to the General Treasury.	We would like to inform you that action will be taken to forward in the future.	The company should be complied with circular provisions issued by the Department of Public Enterprises.
(c) The company had not been prepared the Key Performance Indicators (KPIs) as to measure the activities of the company, and due to that the actual and the expected performance of the company for the year under review could not be evaluated in audit.	Performance Indicators are currently being developed for full time employees and are expected to measure the performance accordingly, annually in the future.	The key performance Indicators (KPIs) should be formulated to measure the company's expected operations.

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the paragraph 5(2) of the Public Finance circular No. 01/2014 dated 11 February 2014, based on the company's corporate plan/Business plan, the Action Plan which included activities expected to be implemented in the coming year, had not been prepared in accordance with the circular provisions.	(i) Loan Repayment Plan – Loan Repayment Plan has been planned by the Urban Development Authority	The action plan should be prepared in accordance with the circular provisions.
	(ii) Updated Organizational Chart, approved cadre and details regarding to the existing staff - The updated organizational chart has been prepared now.	
	(iii) Human resource Development plan - It is	

done through the parent company as it is done by a limited staff. Annual performance measurement has done for others.

- (iv) Internal Audit plan - I would like to inform you that action will be taken to prepare the audit plan for the year 2021/22

4.4 Internal Audit

Audit Issue	Management Comment	Recommendation
Internal Audit Division had been established for the company and although the company was audited by the Internal Audit Division of the parent company, the Urban Development Authority, by the date of the audit for the year 2020 even a single audit query had not been issued.	Internal audit work for the year 2020 and 2021 is being carried out to avoid this delay.	Internal Audit functions should be carried out effective manner as part of the internal control system.

4.5 Audit Committee

Audit Issue	Management Comment	Recommendation
According to the section 7.4.1 of Department of Public Enterprises Circular No PED/12 dated 02 June 2003, although the Audit and Management Committee should meet every three months, four times a year, the company had not been held any audit and management committee meeting from the beginning to the audit date.	A management paper will be forwarded to the management staff to establish and to held the audit committees in the future. However, by considering the nature and legal requirements of the future operation of the company and upon arrival of a member of the Board of Directors representing the Treasury Department, an action will be taken to set up the audit committee	Audit committees should be held in accordance with the circular provisions.

4.6 Budgetary Control

Audit Issue -----	Management Comment -----	Recommendation -----
According to the paragraph 5.2.4 of the Public Enterprise circular dated 02 June 2003, the Annual budget should have been drafted three months prior to that year, but the company had not been prepared a budget for the year under review.	The budget has been prepared and forwarded.	The budget should be prepared in accordance with the provisions of PED/12 circular.